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Abrams, Bernard S.

George Washington University



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**PERFORMANCE BUDGETING
and
FINANCIAL MANAGEMENT
in the
DEPARTMENT OF THE NAVY**

**Research Report of the 1961 Class
Navy Graduate Comptrollership Program**

Thesis
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**The George Washington University
Washington, D. C.**

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PERFORMANCE BUDGETING AND FINANCIAL MANAGEMENT

IN THE DEPARTMENT OF THE NAVY.

Research report of the 1961 class.

Abrams, Bernard [and others]
"

Research Report of the 1961 Class
Navy Graduate Comptrollership Program

The George Washington University

Washington, D. C.

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FOREWORD

This is the fifth of a series of group papers developed by the Navy Graduate Comptrollership classes at The George Washington University.

The preceding group papers were

1957 FINANCIAL MANAGEMENT IN THE DEPARTMENT OF THE NAVY
1958 FINANCIAL MANAGEMENT IN THE SHORE ESTABLISHMENT
1959 BUDGET FORMULATION IN THE ARMY, NAVY, AND AIR FORCE --
A COMPARISON
1960 THE DOLLAR PROBLEM -- MATCHING THE MISSION WITH MONEY

It is hoped the present study PERFORMANCE BUDGETING AND FINANCIAL MANAGEMENT IN THE DEPARTMENT OF THE NAVY will prove an important addition to the literature on the subject.

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INTRODUCTION

The term "performance budget" first became a cause celebre in government as a result of the original Hoover Commission's "Recommendation Number 1" in its report on Budgeting and Accounting:

We recommend that the whole budgetary concept of the Federal Government should be refashioned by the adaptation of a budget based on functions, activities, and projects: this we designate a "performance budget."¹

The lack of further precision has resulted in a sort of open season for theorists, writers, and government entities on what is meant by the words, "performance budget." Seckler-Hudson concludes that functional, activity, and program budgeting are all the same thing²--while Burkhead, who seems to have definite ideas about what it should be states: "There is no precise definition for performance budgeting; it has come to mean something different in every jurisdiction which puts it into operation."³

The purpose of this paper is to synthesize a definition from

¹U. S. Commission on Organization of the Executive Branch of the Government. Budgeting and Accounting (Washington: U. S. Government Printing Office, 1949).

²Catheryn Seckler-Hudson, "Performance Budgeting in Government," Advanced Management (March, 1953), p. 5.

³Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, Inc.; London: Chapman & Hall, Limited, 1956), p. 139.

the plethora of material on the subject which would be applicable to the Department of the Navy; to present a comparison of budget formulation and execution, as it is now practiced, with the definition we have developed; and to highlight what would be required in any conversion deemed desirable.

CHAPTER I

CONCEPT

The Relationships of Primary Department of the Navy Responsibilities, Financial Management, and Budgeting

"The budget and appropriation process is the heart of the management and control of the executive branch."¹

One task assigned to the Department of the Navy is "to maintain the Operating Forces in a state of readiness to conduct war."² For the purposes of this paper this is considered to be the primary task of the Navy. Supporting the accomplishment of this task is a Navy Department operating plan. The Department of the Navy budget is management's expression of the operating plan, in financial terms.

It must be borne in mind that the budget is a financial management tool, and not an end in itself. Therefore, the primary criterion for evaluating the desirability or effectiveness of any budgetary system is the manner in which it will contribute to the

¹U. S. Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting: A Report to the Congress, 1949, p. 7.

²U. S. Office of the Federal Register, United States Government Manual 1960-61 (June 1, 1960), p. 166.

combat readiness of the operating forces.

What is a Budget?

There are probably as many definitions of the word "budget" as there are people who have written about the subject. In the expansion of the definition, however, most authors make the same points that are made by Jones when he states:

Budgets are essentially tools for planning and implementing plans. . . . The operating budget is a summary of . . . future plans, cast in terms of dollars. It provides a set of goals . . . [and for] a measure of how well these goals have been achieved--how well the actual performance compares with the standards that have been set in the budget.¹

What is a Plan?

A careful re-examination of the objectives of a budget as given above suggests that the most important element--the one that determines, in the end, the ultimate effectiveness of the entire process--is an understanding of what a plan is, or should be.

To begin to understand planning, it becomes necessary first, to think about why we plan. In his study of administrative behavior, Simon holds, that what he refers to as "The Criterion of Efficiency" would dominate decisions if rationality always governed. In explaining what he means by "The Criterion of Efficiency," Simon specifically excludes the normal connotation of efficiency as being related to some worthwhile thing; rather he limits it to "that choice of alternatives which produces the largest result for the given application of

¹Manley Howe Jones, Executive Decision Making (Homewood, Illinois: Richard D. Irwin, Inc., 1957), p. 442.

resources."¹ In other words, rationality should dictate planning if we wish to be sure to make the most out of our resources.

There are two primary reasons why management tends to resist planning in the budgetary process. The first is psychological. We are all human and a detailed plan may be used as control device. As Jones says, when speaking of an executive's reaction to control, " . . . it lowers his status in his own eyes and possibly in the eyes of his subordinates."²

The second reason to question the usefulness of planning is based on a supposition that it is not possible to translate the bulk of our objectives, which are generally stated in terms of values, into finite segments.

Simon maintains that

. . . somewhere, sometime in the administrative process weights actually are assigned to values. If this is not done consciously and deliberately, then it is achieved by implication in the decisions which are actually reached.

He further points out, in an example concerning a municipal fire department, that the function of "protecting the city from damage due to fire" does not imply that the city wishes to expand fire-fighting facilities to the point where fire damage is entirely eliminated. He explains that the reduction of losses "as far as possible" depends on the amount of money available for fire protection, and that until the city has determined that it wishes to limit its losses to X dollars

¹Herbert A. Simon, Administrative Behavior: A Study of Decision-Making in Administrative Organization (New York: The Macmillan Company, 1957), pp. 172-182.

²Jones, op. cit., p. 447.

per capita and will appropriate Y dollars calculated to carry out the objective, it will not have really decided what relative degree of protection it wishes.¹ In delving further into the same example, Simon advises that the elements of the calculation can be determined:

Of what does fire-fighting consist? A piece of apparatus must be brought to the scene of action, hose laid, water pumped and directed upon the flames, ladders raised, and covers spread over the goods to reduce water damage. Again, each of these activities can be analyzed into its component parts. What does laying a hose involve? The hose must be acquired and maintained. Equipment for carrying it must be acquired and maintained. Firemen must be recruited and trained. The firemen must spend a certain amount of time and energy in laying the hose.

A final level of analysis is reached by determining the cost of each of these elements of the task. Thus, the whole process of fire-fighting can be translated into a set of entries in the city's books of accounts.

The problem of efficiency is to determine, at any one of these levels of analysis, the cost of any particular element of performance, and the contribution that element of performance makes to the accomplishment of the department's objectives. When these costs and contributions are known, the elements of performance can be combined in such a way as to achieve a maximum reduction in fire loss.²

At this point we have introduced statements which, for the first time, suggest "performance budgeting." Before going further into the subject, per se, we consider it important further to pursue the matter of planning. It may be held that the example given above concerns a relatively simple situation, and that the Department of the Navy is a much more complicated organization. The assumption would therefore be that what might be possible for a fire department is beyond reason for the Department of the Navy.

¹Simon, op. cit., p. 177.

²Ibid., pp. 187-188.

A review of what is now being done with regard to detailed planning both commercially and in some portions of the Navy Department leads to the conclusion that it is indeed possible to accomplish planning--i.e., that sub-goals can be established and data compiled--to whatever degree considered practicable.

By way of example, the British American Oil Company, Limited, Toronto, employs approximately 1,500 control charts to control the operations of five plants at the head office level. This technique, the company believes, would be impossible without the services of electronic data processing. While British American Oil is cognizant of the expense involved, it feels sure the results obtained in cost control, budgeting, and economic planning have been more than justified to date.¹

The Koppers Company reaches into every operating unit of its 55 plants and numerous sales offices to process, monthly, approximately 325 multi-line, multi-column worksheets which reflect progress against plan.²

Within the Department of the Navy itself, there are a number of highly developed systems which involve detailed planning in finite

¹W. J. McGuire, "Operations Research in Cost Control, Budgeting, and Economic Planning," Operations Research Reconsidered: Some Frontiers and Boundaries of Industrial OR, AMA Report No. 10 (New York: Finance Division, American Management Association, Inc., 1958), p. 89.

²Thomas J. McGinnis, "Reporting in a Control Group Organization," Reports to Top Management for Effective Planning and Control (New York: American Management Association, 1953), p. 58. This publication contains explanations and exhibits of detailed planning and control systems for a number of major American enterprises such as Burroughs, and Carrier.

terms and the reporting of progress against these plans. Perhaps the most widely known of these is the Program Evaluation and Review Technique (PERT), the computerized technique used in the Polaris program to control, during fiscal year 1960, \$3.7 billion worth of operations performed by approximately 5,000 contractors. While PERT was not directly involved with financial control, it exemplifies planning as a discipline¹ similar to that being here described for financial management.

The Bureau of Supplies and Accounts operates under a budgeting and control system which involves detailed workload and related dollar planning in 167 categories for the fiscal year 1961 budget. Most of these 167 major categories have a substantial number of statistical and accounting sub-components.²

From the foregoing, it would appear reasonable to define an effective planning process as one which: a. involves the determination of objectives, recognizing that these are usually stated as values, e.g., "complete readiness" and; b. translates these objectives into a sub-series of finite, measurable terms which will enable the objective to be accomplished as a coordinated whole.

¹Address made by Mr. Gordon Pehrson, Assistant Chief for Programs and Management Plans, U. S. Navy Bureau of Naval Weapons, to the 1961 Class of the U. S. Navy Graduate Comptrollership Program, The George Washington University, Washington, D. C., on November 16, 1960.

²Worksheets for 1961 Budget Estimates of the U. S. Navy Bureau of Supplies and Accounts (in the Washington, D. C. files of the bureau).

What is a Performance Budget?

If there is a single element that is more important than any other as an explanation for the wave of interest in performance budgeting, it is undoubtedly to be found in the very complexity of modern government. Where citizens and legislators are generally familiar with what government is doing, where programs are financed from a single source of funds, where an administrator has a relatively small number of programs under his jurisdiction, there is little need for performance budgeting. But modern government is not like this. Multipurpose programs and multipurpose agencies are commonplace, and the organizational and program lines get badly tangled. The traditional object classification does not readily lend itself to unraveling them. In this situation performance reporting and budgeting can make a major contribution.¹

At this point a partial definition of performance budgeting is attainable. It is considered partial because it is not feasible to convey the concept completely without presenting and discussing a possible framework and method of operation applicable to the Department of the Navy. Furthermore, a complete definition cannot be presented before dealing with such important matters as flexibility, which is done later in this chapter.

The following partial definition is based on an amplification of the fact that efficiency and rationality dictate planning, and of the fact that the Navy Department's situation is too complex to permit effective budgeting without identification of performance categories.

Budget, Performance--A budget based upon programs, functions, and projects which would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather

¹ Jesse Burkhead, Government Budgeting (New York: John Wiley and Sons, Inc., 1959), pp. 138-139.

than upon the things to be acquired such as personnel services, supplies, equipment, etc.¹

It is the writers' opinion that this statement should be taken with the understanding that to comply fully with the recommendation of the first Hoover Commission, categorization must be in segments--which are capable of being expressed in finite, measurable terms particularly at the working level in the formulation, execution, and related control stages--and that planning is in effect accomplished before budget submissions.

The position of the Bureau of the Budget in this matter is very clear. The Bureau maintains that "there is no more readily defended method of justifying the requirements for an accepted program of work than by the judicious use of work measurement or unit cost statistics," and offers its assistance to any agency wishing to develop or improve systems which will provide this information.²

Possible Framework for a Performance

Budgeting System

Figure 1 (page 11) is designed to illustrate a possible framework for a performance budgeting system applicable to the Department of the Navy. There is no intention whatsoever to imply that this framework is complete, or that any of the hypothetical titles of

¹U. S. Department of the Navy, Office of the Comptroller, The Budget Process in Navy, NAVEXOS P-2254 (June 1960), A-4.

²U. S. Bureau of the Budget, Instructions for the Preparation and Submission of Annual Budget Estimates: Circular No. A-11 (Revision of September 5, 1958), Sec. 65. Cited hereafter as BuBud Circ. No. A-11.

CATEGORY TITLE

MISSION

CONTROL OF THE SEAS

PROGRAM

ASW

POLARIS

AMPHIBIOUS

AA

PERFORMANCE

XXX
XXX
XXX

SHIP MAINTENANCE
SUPPORT OF MILITARY PERSONNEL
REQUIREMENT OF PARTS PECULIAR

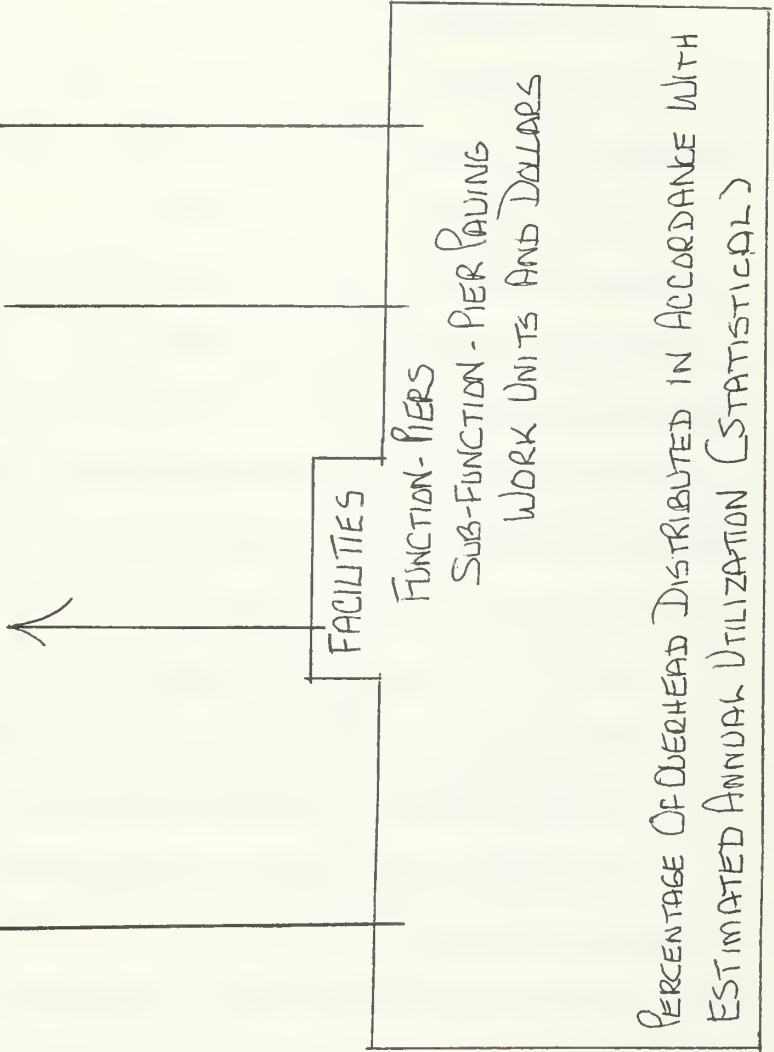


FIGURE # 1 - POSSIBLE FRAMEWORK FOR A PERFORMANCE BUDGETING SYSTEM

programs or performance elements should be used as presented. The items included are merely to indicate structure and to provide the basis for discussion of pertinent considerations.

Looking first at "Category Titles," there is no case made here for any of them per se. They have been assigned simply as points of reference for the levels of breakdown which appear to be necessary.

Under the "Mission" level, the first echelon of sub-divisions is composed of Programs. As illustrated in Figure 1, these Programs support the Mission completely and directly: there is no separate overhead component. The reason for including the applicable overhead within the Program is that this composition is more salable and presents a truer picture. Most people object to the idea of buying overhead but, realistically speaking, it is always there. However, to a considerable degree, overhead should vary directly with the cost of the operation. Although we are interested in overhead, it must be remembered that our primary concern is with seapower.

The method of ascribing overhead charges would be the same as that used in conventional accounting processes. For example, the cost of maintaining piers would be distributed to the Programs based on the estimated utilization of these facilities by the ships assigned. It is appreciated that if it were decided to depress a particular Program, it might not prove practical to lop off a proportionate piece of the overhead and that some detailed analysis would be required. However, the inclusion of overhead does provide a reasonably accurate expression of the cost of the Program and a potential for a quick estimate of what might be involved in the increase or decrease of a Program.

Every Program would be implemented by each of its own constituent Elements of Performance. Thus, implementation of the Polaris Program would be attained by accomplishment of applicable Ship Maintenance, Support of Military Personnel, Procurement of Parts Peculiar, and other constituent Elements. These Elements would be developed from the largest components capable of meaningful measurement--e.g., an Element of Facilities might be Piers (which for the sake of convenient nomenclature we might term a Function) and an Element below that which might be the segment at which meaningful measurement--and therefore planning capability--first appears might be a Sub-Function called Pier Paving. These Sub-Functions, would, of course, be susceptible to object classification breakdown, should this be desirable.

Ramifications of the Proposal

There is no intention to suggest that the adoption of a budgetary framework and concept as discussed above should require any reorganization within the Department of the Navy. It would not even require a liberalization or modification of the appropriation structure as it now or might otherwise exist, though a liberalization of flexibility would be beneficial. For years we have been living with a dichotomy in the budget process wherein we develop and justify our budgets in one way and have them expressed in quite another in the President's Budget.¹ If the Navy Department should feel that it would be beneficial to employ the performance framework and concept

¹BuBud Circ. No. A-11, Sec. 11.

as shown herein, it appears entirely feasible for it to change from one method of budget formulation to any budget presentation desired by any level of higher authority. If we assume, for the moment, that the Department of the Navy might not even wish to discuss any change in appropriation structure with higher authority, the building blocks which exist under our performance framework and concept could still be utilized as the basis of a "planning discipline"¹ to insure the most efficient utilization of our resources,² as a strictly internal Navy Department matter.

It is not necessary that the budgeting framework suggested herein be adopted for the Department of the Navy to realize the major gain inherent in performance budgeting. The most important part of the preceding concept is the conversion of Program Functions into finite terms at some organizational level. This conversion should be at or above the level of the Navy bureaus and offices and the Headquarters, Marine Corps. Whether or not this framework is adopted, these organizations would continue their present roles of budget formulation and execution with the related control functions.

Execution

Thus far the discussion has centered on matters relating to either formulation or the budget process in general.

Insofar as execution and control are concerned, these Siamese twins raise the question of whether detailed planning and control are

¹Supra, p. 7.

²Supra, p. 5.

likely to hamstring field commanders.

This question might be best explored by reviewing briefly the basic implications of planning, command prerogatives and responsibilities, and the most important requirement of flexibility.

A plan is a " . . . Method or scheme of action, procedure, or arrangement; project, program, outline or schedule."¹ There is nothing inherent in this definition which requires that a plan come true, and, from our experience, we know that no matter how hard we might try, plans often do not materialize precisely as we have foreseen them. (Some statistics on this matter will be presented in the discussion of flexibility.) Nevertheless, planning is essential if a course of action is to be set, and if difficulties are to be foreseen and anticipated.

The field commander plays a vital role in the budget execution process. It is his task to provide a detailed, updated plan of execution to carry out Navy Department objectives: in the budgetary sense, his plan usually takes the form of an allotment request and justification. It is important to note that the commander has no way of intelligently carrying out his responsibility unless he has received adequate guidance from his superior management entity. For example, assume that a command physically consists solely of an administration building and a series of piers. If the commander requested and received his funds in one lump sum and without any guidance as to intended purpose, he might decide that they should be primarily spent on the

¹Webster's New Collegiate Dictionary (Springfield, Mass.: G. & C. Merriam Co., 1949), p. 644.

administration building, repairs for which appear to have the higher priority. However, his decision would change if his superior were to advise him that the extent of pier utilization was scheduled to increase substantially during the funding period. Thus, a field commander should receive adequate budgetary planning guidance from his superior.

In the actual practice of budget execution for a command of significant financial stature there is a considerable amount of communication between the command and its superior management entity. A common financial language--i.e., an adequate stratification of functional effort--facilitates such communication, as it also facilitates budget justification and control at the command level. The budget should be a management tool for the budget executor, not a financial strait jacket or a device to restrict his command prerogatives. Further, effective control and wholehearted support by the budget executor are essential if a plan is to develop its full value. For these reasons, our hypothetical field commander should actively participate in decisions during budget execution. Such participation produces these significant advantages: it stimulates the executor's incentive to carry out the plan;¹ it permits updating a plan initiated 18 months earlier; and it makes use of the more detailed knowledge of the executor. To illustrate this last point, in the case of our hypothetical command and the work on its piers, the executor is

¹ Raymond Villers, "The Managerial Approach to Budgeting," The Controller (October, 1958), p. 479.

better qualified than his superior to determine what work should be done on which pier.

Flexibility in execution is a most important matter, as was indicated previously. In a study conducted of the management planning and control efforts of 424 companies, it was determined that while sales totals are often within 5% of forecasts, sales in various product lines often deviate by as much as 25%.¹ The Bureau of Supplies and Accounts recently conducted a pilot study to compute differences between forecasted planned accomplishments and subsequent actual achievements in the areas of Packing and of Supply Availability. System-wide totals of achievement differed from the plan by less than 1%, although there were wide ranges of differences at the various individual field commands.²

This information suggests that it is administratively desirable to provide full flexibility in the operation of the system.

Control

"Only if the records of actual performance . . . are periodically laid alongside the expected performance (the budget) and appropriate action taken before it is too late, do these serve as controls."³

Jones' statement, above, is a good beginning for the discussion

¹Burnard H. Sord and Glenn A. Welsch, "Review of Business Budgeting: A Survey of Management Planning and Control Practices," The Controller (October, 1958), p. 492.

²Interview with H. Franklin Nuttmann, Budget Execution Branch, Bureau of Supplies and Accounts, Navy Department, November 22, 1960.

³Jones, op. cit., p. 445.

of control because implicit in it is the realization that control consists neither of forced adherence to sterile plans nor of maintenance of records merely for their own sakes. Rather, control consists of awareness as to what is happening and the taking of appropriate corrective action.

Control is primarily a function to be performed at the field command level, and to perform his tasks, the field commander must have available an up-to-date picture of what is happening. The type of information system necessary for adequate control depends largely upon the size of the organization being controlled. In a small organization, the field commander can remain reasonably well informed solely by on-the-spot observations. However, in an organization of considerable size and complexity, a formal information system appears necessary. In this regard, Edmunds writes that the manager

. . . develops blind spots about the organization because he does not have time to see all the managers under him, learn their problems, guide them, and coordinate their efforts. It takes too long to talk to people. The word-of-mouth information system from subordinates upward is filled with pleasantries, politics, misinformation, and static, as well as the facts.¹

Further, he also indicates that information systems are required to extend

. . . the ability of a manager to reach down through the management layers and diversity of an enterprise to locate problem situations. His reach governs the depth to which he can effectively go in directing the physical transactions of the business.²

¹Stahrl Edmunds, "The Reach of an Executive," Harvard Business Review (January-February, 1959), p. 95.

²Ibid., p. 87.

While in practice a field commander might require a more detailed system of reports for control, the information furnished the superior management entity should be limited. The management entity should not receive more than that which is required for future planning and for such control as the management entity might feel it pertinent to exercise. This reporting would include at least the same degree of detail that the management entity employed to provide original execution guidance. Thus, a system would be obtained which provides planning information and reporting of progress against the plan at both the field command and management entity levels.

What Does a Cost-Based Budget Mean?

Before presenting the complete definition of performance budgeting, a discussion of reporting systems is necessary. Accounting is a major element of such systems. Furthermore, it is desirable to discuss another term often present in performance budgeting literature--cost-based.

Cost-based refers to an accounting system which utilizes, as the basis for recording, the value of goods and services received or estimated to be received in the accounting period.¹ This accrual system differs from the obligation system of accounting because the latter records the values of goods or services which have been ordered, but may not be received in the current accounting period. Thus, under an obligation system of accounting, there is an entry

¹George Y. Harvey, "Contract Authorization in Federal Budget Procedure," Public Administration Review, XVII (Spring, 1957), p. 117.

on the books for value which may not be received until sometime in the future.

A full analysis of the controversial subject of whether the Navy Department requires this system throughout¹ is beyond the scope of this paper, but its advantages seem to us to be that it would require annual review of the status of the major procurement programs, provide for accurate unit costs, and make it difficult to use up money--i.e., obligate in a rush at the end of the year--for "deferred" type items.

A cost base is not necessary for a performance budget, but it is a desirable component, at least for the major procurement areas.

Reporting Systems

As has been shown throughout this chapter, adequate reporting systems are the key ingredient in effective planning (formulation), execution, and control.

There are instances where dollar information alone is adequate, but often it is not. Knowing that we spent X dollars for a certain type of work is not very valuable for planning and control if we do not really know how much work we got for our money.

¹Harvey states that the Second Hoover Commission, which recommended budgeting in terms of estimated annual accrued expenditures, was vague as to how this system would be a contribution in the non-long range procurement area and that "the proposal is so close to the present system as to constitute a distinction without a difference" in that area. See page 118 of his article referenced in footnote 1, page 19.

This indicates the desirability of a reporting system where accounting and statistical data are completely integrated wherever possible, and where the product is used as a unit in formulation and execution.¹

Long Range Financial Planning

At present, the Navy Department is enjoined to submit a general estimate of the cost of continuing its programs for one year beyond the budget year.² Under an accrued expenditure basis for budgeting, contract authorization authority, which, in essence, involves asking for authority to obligate the government to spend without yet having the funds appropriated, will assume significant proportions.³ Furthermore, as opined by Novick and Fisher, budgets should be presented which project the "life-cycle funding" requirements for the contents, so that reviewing authorities will be aware of what they are really buying in a budget document.⁴

Whether the Department's budget will ever be required to become as sophisticated as Novick and Fisher suggest is questionable, but their point of view has many desirable features. Such a budget

¹Supra, p. 9.

²BuBud Circ. No. A-11, Sec. 21.

³Public Administration Review, p. 118.

⁴David Novick and G. H. Fisher, "The Federal Budget as a Business Indicator," Harvard Business Review (May-June, 1960), p. 68.

could not even be attempted intelligently without a budgetary system which enables us to plan in considerable, finite detail. With or without life-cycle projecting, we could improve the impression we make with review authorities if we could insure accuracy in the contract authorization area. We are almost certain to become very involved with contract authorizations.

Definition of Performance Budgeting

To sum up, this thesis conceives performance budgeting as a system which involves:

1. The translation of objectives developed in the planning process into a sub-series of finite, measurable terms.
2. The presentation of these finite, measurable terms in the form of Program Elements which represent the major means of carrying out the Navy Department mission--e.g., ASW--and in the form of Performance Elements which are the means of fulfilling the Programs.
3. The supplying of guidance to executing field commands in terms of these same Performance Elements, with the opportunity for field commands to participate fully in the adjustment of these plans as may be required, and with further provision for flexibility in budget execution.
4. The existence of a reporting system (accounting and statistical) which furnishes information in terms of the same Performance Elements on a work measurement and/or unit cost basis (unless the area can be adequately measured by dollars alone), for control, future planning, and budgeting at both field and departmental levels.

Chapters II and III will compare present methods of formulation and execution, respectively, with the concept presented here.

CHAPTER II

BUDGET FORMULATION

Formulation Defined

It has been pointed out in the previous Chapter that a budget, even a government budget, is a financial plan reflecting the desired goals to be obtained, and the estimated cost of attaining these desired goals. To prepare or formulate a budget one must have, then, stated goals and the estimated cost of attaining the stated goals. One important addition must be made at this point: the formulation process must also make provision for a comparison to be made of the relative worth of the individual goals to one another and their expected contribution to the primary goal. This third step is becoming increasingly important because the resources available are finite as will be brought out later.

Formulation viewed in this light is a three step process:

- (1) Establishment of a primary goal, and contributing sub-goals.
- (2) Estimating, as accurately as possible, the cost of attaining the stated goals or objectives.
- (3) Evaluating the contribution of each sub-goal to the primary goal with a means to interject the estimated cost of achievement into the evaluation.

Now that "formulation" has been defined, the currently used method of budget formulation within the Navy Department will be examined. This will be discussed in the same three-step fashion used for the definition. The discussion is broken down into three areas. First, how are the goals or objectives established, what guidance is furnished, where does the guidance come from, and how is the guidance woven into the objectives? Second, when the objectives have been determined, how, and by whom, are the estimates for the final budget document prepared? Third, once the objectives have been "priced out" what review procedure is necessary to shape the budget document into a balanced set of programs, within the dollars likely to be made available?

When the current method of Navy Department budget preparation or "formulation" has been discussed, it will be compared with the "concept" for performance budgeting as developed in Chapter I. To assist in establishing a time sequence, budget formulation is the part of the budget process that starts with the initial budget guidance, proceeds through establishment and pricing of objectives, reviews within the Executive branch and the Legislative branch, and culminates when the final appropriation bills are approved by the Congress. Appendix I contains a chart "Development of the Navy Budget" which illustrates the flow of the budget process in the formulation stage.

Establishing Objectives

To establish objectives, the Navy Department requires guidance so that its objectives can be consistent with the objectives or goals of the nation and the Department of Defense. Once guidance

from superior authority has been furnished, the Department of the Navy internally must amplify the guidance furnished and develop detailed objectives.

Guidance from Outside the Department of the Navy

Guidance furnished from outside the Department of the Navy emanates from two sources: the President of the United States, and the Secretary of Defense. The guidance furnished from these two superior levels has been well described by the Comptroller of the Navy:

In providing guidance to the Secretary of Defense, the President, of course, relies heavily for advice on his immediate staff agencies and other groups established to assist in the formulation of policy. Among the more important of these for budget purposes are the Bureau of the Budget, the Council of Economic Advisors, and the National Security Council.

Presidential guidance, which usually covers broad areas such as fiscal policy, economic assumptions, and the general level of the military effort is usually transmitted to the Secretary of Defense. . . .

The Secretary of Defense, in turn, provides military and fiscal guidance to the Navy. Based on the recommendations of the Joint Chiefs of Staff, for example, he provides the Navy with approved military programs such as force levels and personnel strength. In addition he provides the fiscal ground rules to be followed in preparing the budget.

The amount of direction and guidance received from higher levels varies from year to year depending on many considerations such as the internal situation, the economic outlook, and changes in administration. Very often, guidance is received piecemeal during the budget formulation period--rather than at the beginning when, from an ideal viewpoint, it is most needed. . . .¹

In concluding, the Office of the Comptroller recognizes that the budgeting process is complicated and involves major decisions which are beyond the control of the Navy Department. For the purpose of this

¹U. S. Department of the Navy, The Budget Process in Navy. Office of the Comptroller, June, 1960, p. 3-3.

paper it is enough to establish that: the Navy Department does receive limiting external guidance to assist in preparing its objectives; and secondly, that the guidance is broad in nature and often provided after the formulation process has been initiated.

Guidance from Within the Department of the Navy

Initial budgetary guidance within the Department of the Navy is normally issued prior to the receipt of the formal guidance from the Secretary of Defense. Development of Navy Department guidance is usually begun in early December, about nineteen months in advance of the budget year under consideration.

The first budgetary step taken within the Department of the Navy is the development of the annual Program Objectives by the Chief of Naval Operations (CNO), with the assistance of the Commandant of the Marine Corps (CMC). The following excerpt from a Secretary of the Navy Notice is indicative of the formal guidance furnished to CNO and CMC to assist in preparation of program objectives:

Although no specific written instructions have been received from the Secretary of Defense concerning force levels and military strengths, informal discussions at staff level indicate the probability that no increase is contemplated over fiscal year 1961. For preliminary planning purposes, therefore, these program objectives will be based on the assumption that the fiscal year 1962 force levels and military strengths will remain constant at the figures established for the end of fiscal year 1961 and any additional guidance which may be issued by higher authority.¹

Up to this point in the formulation process, it is apparent that no real objectives have been established, unless the maintenance

¹U. S. Department of the Navy, Office of the Secretary of the Navy Notice 7110, December 14, 1959.

of "status quo" can be considered as an objective or goal.

Guidance from the Chief of Naval Operations

At the CNO level, the general guidance from higher authority is translated into the annual Program Objectives which serve as the foundation for the Navy Department budget estimates. The Assistant Chief of Naval Operations (ACNO), General Planning/Director, General Planning Group, has been designated to coordinate and integrate the annual Navy Program Objectives.

Annual Program Objectives

The Program Objectives have been defined by the Chief of Naval Operations as "definitive statements of requirements."¹ A requirement is then defined as

an expression of a specific demand generated by a strategic plan or strategic concept for products, services, or resources. To be useful in budgetary calculations, a requirement must be balanced against other requirements and be attainable within reasonable and realistic limits of time, production, and cost.²

Annual Program Objectives are not created in a vacuum. The majority of these objectives are a part of the longer range Projected Program Objectives that have been under consideration and development for many months, and in some cases, for several years. The annual increment from the Projected Program Objectives, plus other programs prescribed and recommended by the Secretary of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, program

¹U. S. Department of the Navy, Office of the Chief of Naval Operations Instruction 5000.17, November 23, 1959.

²
Ibid.

sponsors, and bureaus and offices, provides the base for the annual program for the year under consideration.

The Chief of Naval Operations has prescribed procedures for the preparation of the Department of the Navy Program Objectives by designated program sponsors and program coordinators. The program sponsors, consisting of the Commandant of the Marine Corps, the Deputy Chiefs of Naval Operations, the Assistant Chief of Naval Operations (Naval Reserve), the Chief of Naval Material, the Director, Petroleum Reserves, and others as appropriate, exercise authority and responsibility over all Naval programs. Representatives of the program sponsors are designated as permanent working groups acting at a staff level for the liaison with the program managers in the bureaus.¹ It is their responsibility to collect, coordinate, and submit to the ACNO, General Planning, the information to be included in the Program Objectives.

As the various requirements are developed and submitted by the program sponsors and coordinators, the Director, General Planning Group:

(1) Assists in providing cross distribution of information in order to assist the program coordinators in obtaining mutual support and internal balance among programs.

(2) Reconciles, by mutual agreement between interested agencies, any unresolved conflicts in programs, and advises the responsible agencies if programs are not in consonance with guidance furnished.

¹Ibid.

(3) Prepares and distributes to appropriate agencies the draft of the Department of the Navy Annual Program Objectives prior to its submission to the Chief of Naval Operations Advisory Board on the Naval Establishment Programs and Budget (CAB), pointing out any unresolved differences in annual programs.

(4) Provides data as developed to the Comptroller of the Navy for assistance in the preparation of short-method one-line budget estimates. The initial pricing of the program objectives is done primarily by the Bureaus, Offices, and Headquarters Marine Corps, with the understanding that if the estimator does not feel that he has enough information to fully price out the project, the pricing may be omitted. When the program objective estimates are not completely priced, NAVCOMPT is requested to supply an estimate. NAVCOMPT then turns to its analysts, who must provide a tentative estimate.

(5) Prepares and issues a promulgating directive, after approval by the Secretary of the Navy, formalizing the draft statement of Program Objectives with any subsequent changes, as the official Department of the Navy Annual Program Objectives.¹

The Annual Program Objectives are reviewed by the CAB to assure that they are in proper balance and are reasonably attainable in the fiscal year under consideration. For this review, the Assistant Comptroller, Director of Budgets and Reports, furnishes the Board with a rough price-out of the program objectives, as initially prepared, to assist in determining whether the total cost is within a range considered to be reasonably attainable. During this review

¹
Ibid.

an attempt is made to resolve any existing differences in the various programs.

Upon completion of the review by the CAB, the annual Program Objectives are submitted to the Chief of Naval Operations for consideration (in collaboration with the Commandant of the Marine Corps on matters of Marine Corps interest) and are then forwarded to the Secretary of the Navy for consideration and formal approval.

Guidance from the Comptroller of the Navy

Following the promulgation of the approved annual Program Objectives, NAVCOMPT issues the "call for estimates" to Headquarters, Marine Corps, and those bureaus and offices responsible for developing budget estimates to support the Program Objectives. This "budget call" provides guidance to the Naval Establishment in matters governing the preparation, justification, and submission of budget estimates. The call for fiscal year 1962 required budget justifications in four parts arranged by military priorities for all appropriations except the Military Personnel and Polaris appropriations.¹ The "call" also set the dates for submission to the Office of the Navy Comptroller and required certification of the priorities assigned to the various programs by both the program sponsor and the head of the component organization concerned.

Action Initiated by the Budget Call

After the "budget call", the detailed preparation of budget

¹ U. S. Department of the Navy, Office of the Comptroller Notice 7111, March 10, 1960.

estimates begins. It must be recognized that sometimes the approved program objectives are not disseminated until after the budget call has been issued by the Comptroller of the Navy. This fact is indicative of the close timing involved to insure that the latest plans are reflected in the budget estimates. It does not suggest that this overlap necessarily exercises a hardship on the budget estimators, since they have usually been closely associated with the development of the program objectives.

Before the estimators commence their work, the CNO directs the program sponsors in his office to review their requirements within the framework of the program objectives so that the programs more nearly approximate the previous year's total funds. This guidance is usually informal and may vary from program to program. The objective is to bring the programs closer to the total number of dollars that Congress is likely to appropriate, and it is the first "squeeze" from approximately a \$19 billion to a \$15 billion total budget request.

As an example of how the "squeeze" is applied, in the ship-building and conversion program the number of new constructions must be realigned to eliminate the "bow-wave" effect caused by the failure to build in previous years at the rate required to replace the fleet with modern ships. In order not to utilize classified material as to the number of ships involved, a "bow-wave" table has been constructed to indicate the problem using hypothetical numbers.

From Figure 2 it becomes readily apparent that the total requirement for 43 new ships in FY 1962 to meet the program objectives is completely unrealistic when it is noted that funds for only

FIGURE 2

HYPOTHETICAL "BOW-WAVE" GENERATION FOR
SHIPBUILDING PROGRAM

Classification	Fiscal Years					
	1957	1958	1959	1960	1961	1962
Ships Requiring Replacement	10	11	12	12	13	13
Replacements Actually Funded	5	5	6	5	7	6
Annual Unfunded Difference	5	6	6	7	6	7
Unfunded Backlog of Replacements	5	11	17	24	30	37
Total Requirement	10	16	23	29	37	43

seven ships were provided in FY 1961. It is necessary, however, that the 43 ships appear in the program objectives because:

(1) Known requirements exist in the event of a limited or general war.

(2) The deficit requirements are a continual reminder to the planners and budget formulators that a balanced program is needed to prevent too great a deficit in any one program. The known deficit is also a catalyst to the planners to conceive other means of reducing the deficit. In the shipbuilding problem discussed the FRAM programs (Fleet Rehabilitation and Modernization) were initiated to limit the effect of block obsolescence when funds available for new construction were limited.

The first step in decreasing the budget requests occurs after the short-method one-line price out by NAVCOMPT, when the program sponsors defer certain known requirements. In the hypothetical case

cited, perhaps the 43 ships required for FY 1962 would be reduced to 20 at this stage. In the event that a major expenditure for a capital ship was contemplated, perhaps the number would have to be reduced even more. The adjusted program objectives, and any new programs are formally and informally sent to the appropriate bureaus and offices by CNO. As a result of these adjustments to the program objectives, the new estimates usually come to about 120% of the previous year's basic budget. At this point the necessary staff action between CNO and the bureaus and offices takes place to further refine and reduce the programs.

Preparation of Budget Estimates

The Department of the Navy budget estimates are prepared at different levels of command, and also by different methods of dollar estimating. The bulk of the Navy dollars is budgeted by a centralized preparation at the bureau or office level. Only a minor part, approximately 10 per cent dollar-wise, is developed from detailed estimates provided by organizational units. The actual dollar estimates are also prepared by two methods. The first and the most common method is by using a projection of the prior year's dollars obligated as the base, which we will term the "base" method. The second method requires that the individual component's requirements be determined for the budget year in some measurable term, in order that statistical costs may be applied to each of the projected requirements. This second method we will term the "zero-base" method, because each requirement starts out with a "zero-base" and must be rejustified en toto each year in terms of a known projected need.

The principal objective of budget estimates is to state the amount of funds considered necessary to support the plans and programs promulgated in the budget guidance, Navy Program Objectives, and the Marine Corps Capabilities Plan. Estimates are made in direct support of major activities and budget activities within the various appropriation structures. The appropriation structure has a greater impact on the execution phase of the budget process, and will therefore be discussed at greater length in Chapter III.

Centralized Preparation of Budget Estimates

Budgets prepared at the Bureau or Office level with negligible assistance from the subordinate organizational units are considered to be centrally prepared. In general, appropriation categories for Personnel, Procurement, Research and Development, and Military Construction are representative of the centralized preparation process. Estimates for these categories are prepared on the basis of classification of requirements on a nationwide or worldwide basis. Although the needs are at the unit level, the perspective of the budget estimating accomplished at the bureau level is so broad that the justification of a particular function, project, or program has little identification with the subordinate units.

Examples of Centrally Prepared Budgets

For Military Construction, the Shore Station Development Board (SSDB) maintains lists of station projects, which may or may not have been initiated at the activity, to maintain and/or develop each separate activity in the shore establishment. When the budget

is formulated, the SSDB establishes priorities and accumulates detailed costs from the Bureau of Yards and Docks within a perspective based on worldwide programs, commitments and timing.

In the areas of personnel and procurement, much of the estimating is accomplished on a "factor" basis. An example is the application of projected programs in terms of personnel or units of measurement to standard tables, such as consumption and replacement factors, expected lifetimes, and other developed indices to determine the future needs for the entire Navy and Marine Corps. To the developed factors current pricing is applied to provide the budget estimate.

Within the Bureau of Naval Personnel, computation and projection estimates for military pay and allowance, travel and permanent changes of station, subsistence in kind, etc., are on the factor or index basis.

In the FRAM program previously mentioned, CNO designates the active fleet ships to be considered, and the Bureau of Ships utilizes the CNO schedule, to price out the FRAM cost for each ship designated.

An appropriation category may be sub-categorized in the centralized process so that several bureaus participate in contributing to the total estimate. Under the Research appropriation category, each of the Bureaus and Offices of the Navy, submit research proposals and estimates to the Office of Naval Research for consideration and inclusion in the budget document.

Decentralized Preparation of Budget Estimates

The operating or "end-purpose" organizations participate in the decentralized method of preparing budget estimates. Decentralized preparation accounts for approximately ten cents of each Navy budget

dollar. The application of this method is concentrated mainly in the appropriation for Operations and Maintenance. Although small in dollar percentage, a large amount of time, effort and data collection is involved in this phase of the estimating process.

Organizational units as small as ships are not directly concerned. To provide for the operations and maintenance requirements for the ships, the Commanders of the Atlantic and Pacific Fleets are requested to furnish budget estimates. Generally, the Fleet Commanders are expected to submit the breakdown that they feel will best fit the fleet's need, within a predetermined fund target ceiling. The Fleet Commanders base the breakdown on their knowledge of scheduled operations, assignments, and deployments as well as the individual units' needs for overhaul and maintenance. In like manner, the majority of the shore stations are required to submit budget estimates of their requirements. Requirements such as these cannot be totally realized or defined at the bureau level.

Examples of Decentralized Budget Preparation

Under Projects 10 and 11 for the Maintenance and Operation of the Active Fleet, scheduled repairs other than FRAM or conversions are submitted for funding by the Commander, Atlantic Fleet, based on known deterioration, future employment of the ships and other operating factors.

In determining the requirements of some of the shore establishments, the bases, air stations, shipyards, etc., are directed to submit budget estimates to their management bureau. A single installation may prepare estimates for several appropriations. Such estimates are col-

lected at the bureau or office level, and consolidated for the whole shore establishment.

Preparation of Budget Estimates by the Marine Corps

In the Marine Corps the Capabilities Plan, which is analagous to the Program Objectives of the Navy, is supported by budget estimates prepared by shore activities and the Fleet Marine Forces. Requirements of the field activities reflected in the Capabilities Plan are established, costed out, and identified as part of the budget.

The content of the budget estimates are:

(1) Requests for funds to support objectives as outlined in budget guidance.

(2) Changes in funding to support new equipment and replace worn-out equipment.

(3) Requests for funds to support extraordinary requirements and losses.

The estimating process in the Marine Corps is, on the whole, decentralized. The estimates submitted by the organizational units are coordinated at the Headquarters level, where the actual budget is formulated.

There are some exceptions to the decentralized process in the categories of procurement, research and personnel. For example, the estimates for procurement of Marine Corps aircraft are prepared centrally in the Bureau of Naval Weapons, based on a percentage of Navy-wide procurement requirements.

Preparation of the Dollar Estimates

The subject of "where" budgets are prepared has been discussed at some length, and to some extent, the "how" of budget estimates dollar-wise has been touched upon. Prior to the Hoover Commission recommendations on Budgeting, the majority of the budgets from the various agencies were prepared on the "base" concept. In preparing budgets on the "base" concept the main consideration is the total amount of funds obligated during the preceding fiscal year. The Hoover Commission had this to say about budgeting in the First Hoover Commission Report:

There are serious weaknesses in the internal operations of the Federal Government in the fiscal field. These weaknesses penetrate into the heart of every governmental transaction. The President's budget as submitted to the Congress annually, does not indicate accurately what the costs of each activity will be over the coming year; and the Government's accounting system, outmoded and cumbersome, does not indicate what was accomplished with the money spent in the year past.¹

To some extent "performance budgeting" are recommended by the Hoover Commission has been implemented, in that a realignment of budget activities has been accomplished, and the total number of budget activities have been reduced. It has been indicated previously that in the formulation of a budget there must be a realistic pricing of objectives, and a weighing of the desirability of the objectives in order to achieve a balanced program within the estimated availability of funds. Next, let's examine the budget procedure of a typical agency within the Department of the Navy that

¹The Hoover Commission Report (New York: McGraw-Hill, Inc., 1949), p. 33.

prepares dollar estimates according to the "base" method, and another agency's use of the "zero-base" method. The agencies will not be named, as it is the intent to examine the method, not conduct a review of the agencies' procedures.

Preparation of Dollar Estimates by the "Base" Method

The agency under discussion was found to have a very comprehensive set of instructions concerning the preparation of budget estimates. It was apparent that a lot of time and effort have gone into the procedures to make them as effective as possible. This agency does not use the centralized preparation technique, but goes to the field for the preparation of its budget estimates. A spokesman stated that its reasons for operating in this fashion are:

(1) The field organization is able to make a better determination of the actual requirements.

(2) When the field organization is requested to submit budget information it participates to a higher degree in the budget execution.

Guidance was furnished to the field indicating levels of effort to be expected during the year, and in general it was found that the guidance furnished was broad, in terms of previous year's expenditure and operating levels. The budget submitted by the field organization was in categories of cost codes by dollar amounts. The field had been given a target amount based on the previous year's expenditures, and was told to justify in detail any increase required over the target provided. In compliance, attached to the field submission were the estimates for the add-on and delete

items of the areas of change. These add-ons and deletes amounted to about a 13% dollar increase request over the target provided. 87% of the funds were therefore not justified, except on the basis that they were spent the previous year. When further questions were asked, it was found that it was the intent to review only the changes in funding required, not to re-examine the base. In this particular instance, the budget amount was over \$20 million dollars. Of the \$20 million plus budget, less than \$3 million dollars was justified in detail, the remainder was assumed to be justified because of past expenditure at that level. The justification in detail involved one or two line listings of changed requirements or additional requirements for each item of change. In examining the funding based on the field request, it was noted that the field organization did not receive even its previously determined target amount.

It was also determined by discussion that the budget document was not considered to be a financial plan limiting expenditures in an effort to achieve economy. Economy of operation was considered to be the function of the investigative organization, and not a budget function.

Preparation of Dollar Estimates by the "Zero-Base" Method

The "zero-base" method of budget preparation assumes that past expenditure of funds does not create a justification for future expenditure periods. The justification is based on the projected requirement for the future period. As the workloads or operations vary, the requirements are adjusted to meet the predicted workloads or

operations. Past workloads or operations are the basis for planning the future, not the use of dollar sums expended or obligated. The term "zero-base" predicates that every workload or operation is considered to start at zero requirement at the beginning of the budget cycle. Each item of intended workload then is stated in some measurable or definable frame of reference. Once the workload has been determined, the "pricing" can take place. The "zero-base" budget relies at present on the use of work measurement and other similar management techniques of performance evaluation, to determine the actual effort involved to accomplish the goal or objective. The statistical costs of the work units is then calculated and applied to the number of work units to develop the total budgeted cost for the time.

The "zero-base" method of budgeting is used in varying degrees in budget areas by some of the bureaus and offices of the Navy Department. General acceptance of this budgeting tool has not been obtained. However, neither has a common data collection system been established which recognizes the measurement units involved.

The "zero-base" concept requires the use of more specific guidance in the objectives, necessitates consideration of the total job or task to be accomplished under the budget item, allows easy comparison of similar cost areas of effort, and provides a method to evaluate performance. If a budget entails the performance of 10 destroyer overhauls, these overhauls can be costed per overhaul. In the review process it is possible to see that 10 overhauls are to be performed, not that "X" dollars are required for ship overhauls. The reviewer can then have some legitimate basis for evaluating the

desirability of 10 destroyer overhauls, against the requirement for some other item of cost. In evaluating performance it is then possible to determine if the 10 planned overhauls were accomplished, and whether the controls established were operative and the costs were in line with the estimates. The "zero-base" process of budget formulation then is truly the only acceptable performance budget technique for estimating dollar costs.

Format of the Proposed Budget Document

The specifications of the contents and format of the budget document change each year as the guiding directives are modified. The Bureau of the Budget prepares annually an instruction specifying the format for all Government agencies' budget submissions.¹ The Office of the Navy Comptroller implements the Bureau of the Budget instructions by means of a directive distributed to bureaus, offices, and Marine Corps Headquarters which prescribes the preparation of budget document material in support of the estimates to be submitted.²

The Office of the Navy Comptroller directive specifies that the contents of the budget submissions be prepared in four parts:

(1) Justification material. This is prepared by account, and assembled in sets for presentation in bound loose-leaf volumes. Instructions for preparing this material are so specific that the

¹ Circular No. A-11, Instructions for the Preparation and Submission of Annual Budget Estimates, Bureau of the Budget.

²

NAVCOMPT Instruction 7102.1 of 3 November 1960 (Office of the Navy Comptroller) Subj: Budget exhibits and formats; Instructions for the preparation of.

structure, accounts, organization, and assembly are spelled out in minute detail.

(2) Annex material. This consists of additional volumes for each component organization, containing specified exhibits of supporting data for use primarily by the Office of the Navy Comptroller. The information contained in the annex material goes into more budget estimate detail than does the justification material.

(3) Back-up data. This data is prescribed by the Assistant Secretary of Defense (Comptroller) and is assembled into sets by accounts to accompany and support the justification material in the Department of Defense review.

(4) Schedules. These are prescribed by the Bureau of the Budget and are used as support material by Bureau of the Budget examiners in their review of agency budget estimates.

After the budget estimates are put into the specified format by the preparing Bureaus and offices, they are forwarded to the Office of the Navy Comptroller where the formal review process starts.

Review Process

Review of the Department of the Navy's annual financial plan is the most important aspect of the budget formulation process. It is during this phase that the Department's budget proposal is molded into its final form. All the basic elements and characteristics of the final budget are in the estimates submitted to the Office of the Comptroller for the final molding process. The final budget proposal develops in a process designed to produce, in the considered judgment of the highest levels of Navy Department management, the best possible balance of naval programs.

It is evident that the several levels of review will and should have quite different review objectives. Thus, review at the Bureau level within the Navy Department, seeks the best balance and distribution of Bureau cognizant resources among the activities over which the particular Bureaus exercise management and/or technical control. The CNO level is more concerned with arbitrating unresolved differences between the Bureaus and arriving at a balanced mix of all resources needed to accomplish the objectives. The SecNav review is the final period for arbitration and decision within the Department; unresolved differences between the various programs are settled before the Navy Department Budget is forwarded to the Secretary of Defense.

From this general description of the review objectives it should be evident that the higher the level of review the broader in scope it must be in order to afford consideration of additional elements of, perhaps, equal merit. With this in mind it follows that the Secretary of Defense review of the budget will have as its objective the most appropriate balance of resources among the budget proposals of the several armed services. By the same reasoning the President's review by the Bureau of the Budget will be concerned with the most appropriate balance between the Defense Budget and the budget proposals of all other government departments and agencies. In addition, Bureau of Budget review will have to weigh the total budget against anticipated revenues, its impact on the national economy and international implications. This broad outline of the budget review objectives establishes the framework for more detailed consideration of the review process.

Budget Review Within the Navy Department

Review of the Navy Department budget, as such, starts in the Office of the Navy Comptroller.¹ The NavCompt review actually has several purposes.

Primarily, however, it is to develop a tentative overall Navy budget as a basis for consideration of outstanding issues by the CNO Advisory Board and higher officials in the Navy. More specifically, central review is undertaken to insure:

- (1) that the budget requests conform with the program objectives;
- (2) that the fiscal policies and guidelines received from higher authorities have been applied in developing the budget;
- (3) that the pricing of programs is reasonable and that the programs appear feasible of attainment in the budget year;
- (4) that interdependent parts of the budget appear to be in phase and balance; and
- (5) that, in areas where the program objectives are not specific or sufficiently clear, the bureaus and program sponsors are in agreement with respect to the size and scope of the programs as well as the segment to be included in the budget.²

The Office of the Comptroller review starts with the estimates submitted by the several Bureaus and Offices of the Navy Department and ends after several weeks of hearings and discussions, formal and

¹It must be remembered that budget items proposed by individual activities in the shore establishment and operating forces have been given a thorough going-over by the chain of command enroute to the appropriate management bureau. This is particularly true of capital expenditure proposals. Furthermore, approval of a proposal by all levels up to the management bureau level is no guarantee that the request will be included in the Bureau's budget. Within the bureau, proposals are subjected to a close scrutiny to insure they are consistent with the Bureau's objectives and goals which have been based on the overall planning objectives.

²The Budget Process in the Navy, NAVEXOS P-2254 (Office of the Navy Comptroller, Department of the Navy, June 1960), p. 4-6.

informal. As the estimates are received in the Office of the Comptroller they are studied in detail by the staff of the Assistant Comptroller, Director of Budgets and Reports. Pertinent questions are developed on items reflecting significant changes from past budgets. The questions are designed to illuminate these items during hearings at which the Chiefs and Directors of the Bureaus and Offices present their justifications. The course of the hearings very often suggest other areas of examination and questioning to the reviewers. The reviewer's role as a budget integrator has been well stated as follows:

. . . his institutional vantage point puts him in a position to predict the relative preferences of his own superiors more accurately than can the agency personnel, who are . . . administratively much farther removed from the center of Executive policy-making.¹

The NavCompt review is governed, in part, by guidance which has been issued by higher authority. It often seeks to determine the method used in arriving at the dollar amounts requested. For example, it may want to know if the proposals are merely last year's budget, expanded to reflect inflation, plus significant add-ons, or if the proposals actually represent a genuine effort, starting with unit costs and working up through the several programs in view of the current needs and guidance.

After the hearings are completed the staff of the Comptroller prepares the "mark up" based on information developed during the hearings and evaluated in terms of its review objectives. At this point the budget "mark up" is given to the bureaus, the office of

1

Glendon A. Schubert and Donald F. McIntyre, "Preparing the Michigan State Budget," Public Administration Review, (Autumn 1953), p. 243.

Chief of Naval Operations and Headquarters, Marine Corps. The NavCompt proposed revisions are considered by the respective offices and the areas of disagreement become the subject of reclama hearings. Following reclama, the budget is adjusted to reflect agreements that have been reached. The "marked up" budget, including reclamation, adjustments with reasons for each, the areas of difference, and an analysis of the major points to be considered in making final budget determinations is submitted to the CNO Advisory Board, (CAB), the Chief of Naval Operations, the Commandant of the Marine Corps and then to the Secretary of the Navy for further review and final decision.¹

The Chief of Naval Operations Advisory Board for Programs and Budgets (CAB) was,

created by the Chief of Naval Operations for the express purpose of insuring that careful consideration is given by top military personnel to the Navy's program decisions and to their budgetary and manpower implications.²

The CAB sessions iron out any differences remaining after the NavCompt review. The conduct of their hearings is not dissimilar from those of the Comptroller. At formal meetings, Bureau Chiefs, Program Sponsors from the Office of CNO and NavCompt officials are given the opportunity to present their positions on the issues remaining unresolved from the NavCompt review.³ Thus, although the dollar

¹The Budget Process in the Navy, NavExos P-2254, p. 4-13.

²Ibid.

³The proposed Marine Corps budget is not considered by the Chief of Naval Operations Advisory Board except to the extent that it enters into the total Navy Department budget. The Secretary of the Navy resolves the differences in the Marine Corps budget.

requests of the operating forces are contained in the Bureau submitted estimates, this stage of review is, in a real sense, a close look at the proposed budget from the operating commander's point of view. It is much more than a budget briefing session for the "Top Brass" as suggested by Mosher.¹ The CAB members maintain close contact with the budget throughout its development and review stages and are well informed on the particular problems involved when the proposed budget is presented to them for review.

The CAB recommended budget, together with unresolved matters, if any, after study by the Chief of Naval Operations and the Commandant of the Marine Corps, is formally presented to the Secretary of the Navy. The final authority and responsibility for the Department's budget resides in the Secretary of the Navy. After his approval the budget is forwarded to the Secretary of Defense.

Up until the time the Navy Department budget is submitted to the Secretary of Defense the review process of budget-making is an internal, self-examination process designed to produce a balanced naval program in support of the planning objectives. From the Navy Department's standpoint, the budget consideration by the Secretary of Defense, the Bureau of the Budget, the President and Congress should not be thought of in terms of a review. It is, in fact, a "selling" job. The competition for dollars within the Department of Defense is extremely keen. Outside the DOD, in the Bureau of the

¹ Frederick C. Mosner, Program Budgeting: Theory and Practice (New York: American Book-Stratford Press, Inc., 1954), p. 179.

Budget and in Congress, the competition becomes even more intense because there are many more Departments and Agencies, all with valid programs, competing for a larger share of the total Federal Budget.

Comparative Analysis

In reviewing the current Navy Budget process, we find that the three steps indicated as essential to budget formulation: setting of objectives, "pricing" of objectives, and evaluation of priced objectives, are carried out in terms of the terminology. It is necessary to look, however, a little deeper to determine if the actual intent of the three steps is being realistically achieved.

After review of the guidance furnished from higher authority, it is apparent that only the broadest guidance is furnished in terms of total dollars likely to be appropriated, and manpower ceilings to be established. The actual establishment of the Department of the Navy's objectives occurs at or below the CNO level. It might be considered by some observers that the guidance furnished is adequate and no further guidance is necessary. To indicate what is considered to be an area of difficulty let us cite some roughly equivalent costs. The cost of building one nuclear carrier is roughly equal to the following items that might also appear in the budget: four nuclear missile submarines, 20 fleet auxiliaries, operation of 40 shore activities of roughly 1500 employees each, or purchase of 200 aircraft. It can be understood that the addition or deletion of a carrier to the Navy's budget can cause an impact of some magnitude, particularly in the present era of the level funding concept that has been applied. In order to prepare a good solid set of program

objectives, it is considered that, initially, additional information must be furnished. Such information should go beyond an estimate of the total dollars likely to be appropriated or the probable manpower levels to be authorized and include an indication of Priorities. This guidance should come from the highest level that is defending the budget, or has the responsibility of determining national defense requirements. Because the Department of the Navy must, in effect, play "poker" to get the best out of its dollar, the high level stakes involved cannot help but have an effect on the remainder of the program objectives. The program objectives, therefore, may state real requirements, yet the means to carry out these objectives may never materialize. It is considered that this uncertainty creates an air of doubt on the real necessity for the meeting of the objectives, and detracts from the clarity that should be in the program objectives. You cannot take the second step in the formulation process, until the first step has been clarified in finite terms. This would suggest that CNO Program Objectives should be prepared in a manner which would indicate the relative priority of all the items contained therein.

In preparing the estimates, the concept laid out in Chapter I indicates that the objectives must be accurately priced to provide the element of control necessary during the execution phase of the budget process. It seems to make little difference whether the estimates are made at the bureau or office level, or by the field organizations, except for the salutary affect it may have on the field commander. It is considered extremely important however that the budget estimates be prepared on a prediction of future workload, not on past dollar obligation totals. In this same area it is also apparent that the

budget estimate must reflect a total cost for a particular defined function that relates to the predicted future workload. This failing in the majority of the estimates now being prepared negates the very essence of the performance budget concept. First you must define what it is you are going to do in some finite measurable term, and then take advantage of the statistical cost collection system to determine the cost per unit of effort.

Referring to the budget concept advocated in Chapter I, it is believed that further development and refinement of the budget system along those lines would facilitate the review process within the Navy Department, and particularly during the reviews by higher authority. It is conceded that considerable expenditure would be involved in generating additional cost and statistical data. It is recognized that much progress already has been made in this area. However, it is also suggested that much of the data collected currently is not being used, as yet, to lend credence to the overall costs of meaningful programs. This indicates that the problem is, in part, one of budget orientation or construction. A meaningful program-budget orientation is considered the best solution and is entirely feasible within the present Bureau system of organization.

Review authorities within the Department of the Navy will discover that a greater expansion of the program concept of budgeting will enable them more clearly to visualize and present the impact of dollar cuts or increases on particular programs and on the total Navy program as well. Meaningful comparability of similar functions in the several programs would be possible. This would foster careful

examination of such functions by operating personnel to insure that their costs are not too far out of line with similar functional costs reported by other units. The competitive spirit is far from dead in this country. It is considered to be just as appropriate to encourage management competition in functional cost areas as it is to encourage it in the operational performance aspects of ships and squadrons.

CHAPTER III

WHERE EXECUTION BEGINS

Budget execution may be defined, in general, as the final or implementing phase of the budget process; the implementation of the budget as finally approved and funded by the Congress. Burkhead states that "budget execution must preserve the intent of the legislature, with regard to programs and financial limitations, but at the same time should be characterized by flexibility at all levels of administration."¹ As suggested in the concept developed in Chapter I, the execution phase of a performance budget requires further description. Not only must predetermined plans be implemented with financing but the system of implementation must be such that performance can be easily measured against objectives, progress controlled, and deficiencies corrected.

To facilitate budget execution, there exist certain processes which, as currently performed, vary in their degree of adequacy when considered from the viewpoint of performance budgeting. These include the warrant system and the techniques of apportionment, allocation and allotment. This chapter will present the techniques currently employed in Navy Department budget execution and evaluate them in

¹Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, Inc., 1956), p. 342.

terms of the stated Performance Budgeting concept.

Warrant Process

Although the point in time in the budgetary cycle at which formulation ends and execution begins is not always distinct, the point in time at which the funding authority commences is more specifically defined. This phase of the budget execution process commences immediately following the Presidential approval of the Appropriation Act and involves the warrant, apportionment, and allocation process.

After Congress has approved the Appropriation Act, it is sent to the President for his signature, making it law. The Appropriation Act then goes to the State Department, where it is filed and a Revised Statute Code number is assigned. Certified copies of the Act are then forwarded to the General Accounting Office and the Treasury Department. The former analyzes and interprets the Act; the latter prepares appropriation warrants and assigns appropriation and limitation symbols.¹ These warrants, one for each appropriation, are sent to the General Accounting Office where they are compared to the Appropriation Act and countersigned. The approved warrants are returned to the Treasury Department, where the amounts of the appropriations are recorded in the Government's accounts and notices of warrant are prepared and transmitted to the various departments, offices, and agencies of the

¹ GAO Policy and Procedures Manual (Washington: U. S. Government Printing Office), Title 7, Section 1040. An appropriation warrant is a document, prepared by the Treasury Department, based upon the appropriation act, certifying that authority exists to incur obligations and expend funds from the Treasury in the amount stipulated in the appropriation act.

Government. In the Navy Department, they are received and filed by the Office of the Navy Comptroller, who then advises the various offices and bureaus (appropriation managers) by notice of warrant of the exact amount of each appropriation. (A flow chart of the warrant and apportionment procedure and a list of the FY 1961 Navy appropriations and appropriation managers are contained in Chart I and Figure 3, respectively.)

The Notice of Warrant is used to record the appropriation amount in the bureau appropriation control ledger. This action does not carry with it authorization to encumber the funds involved. The bureaus must then proceed with the allocation process. The warrant process is more a procedural formality than a tool of control.

Apportionment and Allocation Process

The first control established to insure proper use of funds is the appropriation act itself since it establishes the dollar limitations on the conduct of programs identified in the budget. In addition to keeping within legal limits set by the appropriation act, month-to-month operations of authorized programs must be watched closely to ensure that funds appropriated will not be exhausted before the end of the fiscal year. Controls for these purposes are maintained through use of a system of accounts, statistical and progress reporting systems, and two somewhat broader financial controls known as the Apportionment System and the Navy Budget Allocation Control System.¹

¹Financial Management in The Navy (NavPers 10792)
(Washington: Government Printing Office, 1956), p. 68.

Through the apportionment process each annual appropriation is generally divided into quarterly dollar ceilings which must not be exceeded by the amount obligated during the apportionment period.¹

The path followed in the apportionment process is similar to that of the original justification for the requested funds. The bureaus and offices (including CMC) having cognizance of the appropriation prepare apportionment request forms and supporting material covering the amounts requested. These requests for apportionment are forwarded to the Office of the Navy Comptroller for review and consolidation, where necessary. After approval by the Bureau of the Budget and Secretary of the Navy, the "Apportionment and Reapportionment Schedules" (DD Form 1105)² are forwarded to the Office of the Secretary of Defense for review and consolidation with the recommended apportionments of the Army and the Air Force. After approval at this level, the apportionment schedules go via the Treasury Department (for recording) to the office of the Bureau of the Budget, where the apportionments are examined and approved.

In making apportionments or reapportionments, reserves may be established by the President through the Director of the Bureau of the Budget for savings and contingencies when funds are not currently required. Changes in plans which can result in the establishment of reserves are: (1) delays in the anticipated completion of research and development projects which prevent procurement of an item;

¹Apportionments may be "one time" in the case of a "no-year" appropriation or intervals other than quarterly as approved by the Bureau of the Budget.

²A sample DD Form 1105 is contained in the Appendix.

(2) delays in the delivery of items funded with earlier year funds which thus decrease the requirements for follow-on production line funding; (3) cancellations or changes in requirements by CNO or other authority; (4) delays in new station activation and in overhaul and repair department workloads with attendant delays in personnel salary requirements; and, (5) reduction in the ceilings allocated to the bureaus. Reserves may be recommended to the Director of the Bureau of the Budget by the bureaus, the Secretary of the Navy, and the Secretary of Defense.¹

After review and approval, the Bureau of the Budget returns the Apportionment Requests to the Office of the Secretary of Defense (OSD), with a copy provided to the Treasury Department. The approved document is passed by OSD to the Navy Comptroller, who files it and allocates funds by budget activities (sub-heads) to the responsible bureaus and offices on NavComp Form 2058.²

Budget activity allocations are an internal Navy control device.³ They are made by the Office of the Comptroller of the Navy with the approval of the Secretary of the Navy and the Chief of Naval Operations⁴ based on requests received from the bureaus or offices (generally submitted concurrently with the apportionment requests),

¹NavPers 10792, p. 70.

²Sample NavComp Form 2058 is contained in the Appendix.

³Budget activities should not be confused with military activities. The former is an accounting device or structure which represents the subdivision of an appropriation and has no direct identifiable relation to any military activity.

⁴Commandant of the Marine Corps in the case of Marine Corps budget activity allocations.

and represent approved subdivisions of an apportionment by budget activities. Since allocations must not exceed apportionments, they are processed at the same time as apportionment requests.

Allocations and apportionments serve different purposes in that an apportionment, once made, is concerned with controlling obligations at an orderly rate, usually quarterly. Allocations, on the other hand, represent annual amounts established for specific activities and are concerned not with the rate of obligations, but with activity (program) limitations.

When viewed in terms of the performance approach presented in Chapter I, apportionment and allocation as they are now practiced provide only a rudimentary form of control; that is, they regulate the rate and general purpose for which funds are spent. But since reporting against apportionments and allocations are only in dollar terms, there is no assurance that the items budgeted for are actually being accomplished. For example, assume one of the segments of a budget subject to apportionment and allocation as an entity provided for the procurement of 10,000 items at \$10,000.00 per item. If the Navy, in the procurement process, was unable to obtain bids at less than \$20,000.00, it would only be possible to buy half the number. The apportionment and allocation processes, therefore, have obviously not provided an adequate basis for control--they have insured that no more money has been obligated than allowed but have provided no signal that what was planned was only half accomplished.

Under performance budgeting, it would be necessary for the apportionment and allocation process to be modified to provide, in addition to funding aspects, reporting of quantitative, non-financial,

performance data so that there could be a fully integrated, complete measurement of progress against plan.

Action After Receipt of Apportionments and Allocations

Once apportionments and allocations have been received, the various program managers within the bureaus, offices and Headquarters Marine Corps proceed with the execution of their budget plans. They determine the funds to be granted subordinates and field activities and issue authorizations to incur obligations and make expenditures in the amount granted. These funding authorizations usually take the form of allotments, project orders or bureau procurement documents and are generally in conformance with the approved budget, as represented in the detailed back-up sheets.

Budget Activities (Sub Heads)

The Comptroller of the Navy assigns each of the 15 Navy and Marine Corps appropriations to a Navy bureau Commandant, Marine Corps, or office which will be responsible for budgeting, accounting and reporting for the appropriation as a whole. The responsible bureau receives the obligation authority by budget activities through the allocation system previously described.

The relationship of responsible and administering bureau to the various appropriations is illustrated in Figure 3.

Within an appropriation, one or more budget activities may be assigned to another organization for administration. For instance, under 1711453 Military Personnel Navy, the Navy Subsistence Office administers the budget activity for subsistence for the Bureau of Naval Personnel.

FIGURE 3

LIST OF DEPARTMENT OF THE NAVY APPROPRIATIONS

Annual Appropriations	Budget Acts	Responsible Bureau	Administering Bureau
1711105 Military Pers MarCorps	5	MarCorps	MarCorps
06 Oper & Maint MarCorps	8	MarCorps	MarCorps
08 Reserve Pers MarCorps	2	MarCorps	MarCorps
1711405 Reserve Pers Pers Navy	2	BuPers	BuPers
53 Military Pers Navy	5	BuPers	BuPers, Navy Subsistence Office
1711804 Oper & Maint Navy	62	NavComp	Exos, OPNAV, JAG, ONR, BUMED BUPERS, BUSAND BUSHIPS, BUDOCKS BUWEPS
Continuing (No Year) Appropriations			
171109 Procurement, Marine Corps	8	MarCorps	MarCorps
1205 Military Construction, Navy	1	BuDocks	BuDocks
1208 Military Constr. Special Foreign Currency	1	BuDocks	BuDocks
1235 Military Constr. Naval Reserve	1	BuDocks	BuDocks
1319 Research, Development, Test and Evaluation, Navy	8	AstSecNav ResDev (ONR)	ONR, BuDocks BuMed, MarCor BuWeps, BuPers BuSandA
1504 Aircraft & Related Procurement	1	BuWeps	BuWeps
1505 Procurement Aircraft & Missiles, Navy	9	BuWeps	BuWeps
1611 Shipbuilding & Conversion, Navy	2	BuShips	BuShips, BuWeps
1810 Other Procurement, Navy	20	NavComp	OpNav, BuWeps BuSandA, BuShips, BuWeps

In the case of 1711804, Operations and Maintenance, Navy, the 10 bureaus or offices administer those activities over which they have cognizance while NavComp is the "responsible bureau" for the appropriation as a whole. The Bureau of Ships and Bureau of Naval Weapons budget activities are as follows:

FIGURE 4

Appropriation	Sub-Head	Administering Bureau- BuWeaps
1711804 O & M Navy	.1910	Flight operations
	.1915	Weapons and rework maintenance
	.1920	Stations operations and maintenance
Budget Activities (Programs)	.1925	Support programs
	.1950	Departmental administration
	.1970	Nato Common Infra - Structure
	.1990	Centralized procurement
Budget Activities (Programs)	Sub-Head	Administering Bureau --BuShips
	.2410	Maintenance and operation of the active fleet
	.2415	Active Fleet Alterations and improvements
	.2420	Technical support programs
	.2425	Maintenance and Preservation of Reserve Fleet.
	.2430	Maintenance and Operation Naval Reserve Training Vessels
	.2435	Fuel for ships
	.2445	Fleet support facilities
	.2450	Departmental administration
		BuShips

The Bureaus are not authorized to change the distribution of funds between budget activities, except that within Operations and Maintenance, Navy, transfers may be made for differences not to exceed 5% or \$1,000,000, whichever is less.

Chart of Accounts

Each year prior to receipt of allocation and apportionment of funds each administering bureau prepares a chart of accounts for use in administration, accounting and control of funds for the coming fiscal year by both its bureau and field activities personnel. The symbolization of the accounting structure is explained in Appendix II.

The importance of the chart of accounts should not be underestimated, because the manner in which it is structured determines to a large extent the type and degree of financial management and control that may be exerted over the expenditure of the funds involved. It is in these accounts that the financial intelligence data is collected which provides the information feedback to the program manager and the fund administrator. For example, one of the six budget activities (sub-heads) of the O&M appropriation assigned to BuWeps for administration is sub-head .1920 - Station Operations and Maintenance. The chart of accounts at the level of major divisions for fund administration,¹ for this sub-head for FY 1961 is as follows:

FIGURE 5

Account Description Subhead .1920	Deposit Accounts	Program Accounts
Air Stations (Regular Operations)	4000	
Supply		4001
Public		4002
Works		4003

¹ The complete chart of accounts is much more extensive, providing for reporting against a series, where applicable, of five digit expenditure accounts. See Appendix II.

FIGURE 5 (CONTINUED)

Account Description Subhead .1920	Deposit Accounts	Program Accounts
Other Costs		4010
Housing		4015
A/C Refueling		
Ordnance Stations	4100	
Initial Funding of Overhead		4119
Basic Maintenance		4120
Capital Segment		4121
Non-Industrial		4122
NIF Stations	4200	4230
Field Wide Program		4335
Publications Open Allotment		4318
Reserve Stations		
Supply		4440
Public Works		4441
Other Costs		4442
A/C Refueling		4443
Structural Repairs	4500	4550
Subhead Reserve	0100	0193
Funded Reimbursements, O&MN	0200	0294
Material Disposal	4700	4795
APA Cash Sales	0300	0396
MAP-CIO	5400	5497
Funded Reimbursements, Navy	0500	0598
Funded Reimbursements, Non-Navy	0600	0699
Travel	5100	5189

This chart takes on meaning and life upon receipt of the approved apportionment of funds by the BuWeps Comptroller, who transfers these funds intact to the Assistant Chief for Program Management. Amounts apportioned to the budget activity level are subject to statutory penalties of section 3679 Revised Statutes in instances of commitment, obligation, or expenditure in excess of the amount apportioned. The Assistant Chief for Program Management then establishes deposit amounts within the applicable deposit accounts. The amounts so

deposited in individual deposit accounts constitute authorization for Program Directors to proceed, fiscally, with their applicable programs. The deposit amounts are basically determined by the budget submission as subsequently modified by the apportionment process and by additional direction and guidance from CNO. These amounts are planning figures only and are not subject to Section 3679 Revised Statutes. Transfer between deposit accounts are not authorized without approval of the Assistant Chief for Program Management. Transfers between deposit accounts are also subject to BuWeps Comptroller's approval when budget activity (sub-head) limitations are involved. Program Directives issued by the responsible Program Director authorize line or operating project managers to allot, commit, obligate, and expend funds placed in these accounts. Transfers between Report Accounts will normally be authorized by the Program Director so long as the deposit account amount is not exceeded.

Moving from the specific example of BuWeps to approach the situation in general, it should be emphasized that the validity of a control feature does not rest with the charting of finances but with the basis used in determining the deposit amounts themselves. For example, in the chart of accounts on page 63, there are depicted accounts--Air Stations, Ordnance Stations, NIF Stations, etc., into which funds have been deposited. The basic question is this: how were the amounts determined to be X amount for air stations, Y amount for ordnance stations, Z amount for NIF stations? It is quite obvious that each account must contribute differently to the overall Navy Department Program Objectives but how differently and to what extent must be determined on a performance basis. Simply utilizing a base concept alone (that is, last year's obligations) in establishing such accounts would hardly suffice as the

basis for intelligent control. Performance patterns and requirements change periodically as do those factors affecting purchasing power as may be appreciated from consideration of just the following:

(1) Increased efficiency due to technological and procedural improvements, necessitating less funding for the applicable functions.

(2) Increased expenses such as those occasioned by the spiraling costs of material purchased, and civil service payrolls as they are affected by area wage board and longevity accretions.

From the above, it is obvious that the simple application of the proceeding year's obligations as a base does not really provide for the same level of performance, nor serve the interests of efficiency. This is why, in our definition of performance budgeting, we have stressed the need for detailed planning in formulation and the continued reflection of this process (through updating the original planning) in budget execution.

Allotments

The next step in budget execution is concerned with issuing authorization to the operating units and field activities for encumbering appropriated funds which have been allocated and apportioned to the bureau for administration. This is accomplished in conformance with NAVCOMP instructions. Brief excerpts from these instructions are as follows:

"All funds available within an appropriation account for commitment, obligation, and expenditure are administered through issuance of allotments."¹

¹U. S. Department of the Navy, Office of the Comptroller, Navy Comptroller Manual, Vol. II.

An allotment is a subdivision of an allocation or suballocation. An allotment will be issued at the budget activity level (bureau) pursuant to the approved operating budget and will be limited to the functions financed by the budget activity under which granted. The total amount of the allotment will be subdivided into one or more amounts by budget projects. These subsidiary amounts do not constitute limitations unless so designated. Amounts allotted are to cover Navy Department operations only. Reimbursable items will be taken up automatically.¹

Allotment status reports are prepared as of the close of each month. Reports cover the period from 1 July of the current fiscal year through the end of the report month. Reports are due in the bureaus on the 15th of the month following the report month. Summary bureau reports are due in NAVCOMP from the bureaus on the 25th.

Allotments are issued field activities for administration and the Commanding Officers are held subject to the statutory penalties of section 3679 of Revised Statutes for any over-obligation commitment or expenditure of these funds. The amounts allotted are based upon budget estimates submitted by the station and adjusted by Program Managers at bureau level to meet the changes in bureau and CNO plans for the station and further adjusted to stay within the fund limitations set forth in the bureau's apportionment.

The methods employed in the allotment submission and approval process differ considerably, though all are variants of the "zero" or the "base budgeting" techniques to be discussed below.

¹ U. S. Department of the Navy, Office of the Comptroller, Navy Comptroller's Manual, Vol. VI, para. 1300.

Some Washington management entities require field activities to submit detailed requests involving estimated workloads and production rates, which are ultimately expressed as manpower equivalents capable of being priced at current labor rates, which, when detailed functional materials and services requirements are incorporated, results in the completed budget estimate. This technique is sometimes referred to as "zero budgeting" because, while historical workload, productivity and dollar costs are employed, the amount requested is built from the bottom--that is, zero--up.

Other Washington management entities use what is spoken of as the "base" concept. The base consists of an amorphous financial mass--usually the total amount obligated during the preceding year--to which are applied line item additions and deletions. The basic assumptions inherent in this approach are that everything which has not been specifically deleted was performed efficiently in the prior year and continues to be required; and furthermore, that the field commander has, by some means, conducted a review of the contents of the base which the management entity is willing to accept as final since detailed information is not available to it for review. Additions cover tasks which will not be performed, presumably, unless additional funding is forthcoming.

The "zero budgeting" method embodies the principles of performance budgeting in the allotment phase per se. On the other hand, the "base budgeting" approach is not conducive to performance budgeting because it does not provide for a systematized technique for evaluating what will be the vast bulk of a field activity's financial requirements. This is not to imply that field commanders operating under the base philosophy have not practiced economies and are without any formal

devices for financial management. Indeed, station budget boards, operating with a minimal amount of statistical and financial data, have rendered valuable services.

However, it would appear that better allotment requests and review would obtain where the systematized, detailed techniques of zero budgeting are employed.

Reporting Systems

The purpose of reporting systems is to enable local management and the responsible bureau or office to keep apprised of the charges being encumbered and the progress being made toward accomplishment of some order of pre-set goals by those activities to which tasks and funding authorizations have been delegated. The specific appropriation from which the funds are allotted and the nature of the field level activity determine to a large extent the type of reporting system required for management and control of the particular funds involved.

For instance, for no-year appropriations (some procurement and construction appropriations) management and control are accomplished by emphasizing contract administration rather than by means of a fiscal reporting system. Contract administration is concerned with obtaining the best combination of price-for-the-item-for-the-purpose-by-the-date-required through competitive bidding and negotiation prior to consummation of the contract; policing is accomplished by enforcement of the contract specifications. Consequently, the financial reports that are required simply reflect the funds authorized, obligated and expended to date, and the unencumbered balance.¹ One obvious exception is the

¹Critics of the Navy Department have had a field day in their

procedure used for financial accounting for ships and weapons constructed in Navy Yards and weapons plants; these activities are covered by statistical management reports which are within the Naval Industrial Fund accounting system.

Military personnel appropriations are controlled by payroll, travel expenditures, and ration consumption reports.

Operation and Maintenance appropriations are generally controlled by one of two methods, depending upon the type of staffing of the activity involved: (1) activities employing civil service employees submit management reports (combination of material and man-hour charges against an historical or engineered time standard--sometimes referred to as work measurement reports); and (2) activities utilizing military personnel exclusively submit only a report of material charges encumbered during the accounting period (generally referred to as the Monthly Status of Allotment Report).

Work Measurement

"Work Measurement" is a technique used in determining performance effectiveness. It is used to measure the operations and tasks performed by individuals or by groups by relating their performance to engineered time standards or to historical work norms. The work

comments concerning the administration of the no-year appropriations. Most of the criticism centers on the procedure which appropriates funds for a period of three or four years in advance for the construction of a carrier or a missile system; and that this procedure results in large unencumbered balances at nearly all times. These critics overlook the fact that the annual allocation and apportionment process by which obligation authority is funneled down to the spending level constitutes a complete and thorough reevaluation and rejustification of each specific program for which apportionment is requested. Proponents of the accrual accounting system criticize the fiscal reporting procedure because it reflects changes in obligation authority and payment dates rather than dates of acceptance of the end-products being procured.

measurement system within the Navy has improved over the years until today it is an integrated system embracing budgeting, cost accounting, cost control, manpower control, and performance analysis. Work measurement is not an end in itself; it only produces the trouble signals to point out areas needing special attention--the actual control is up to management. Work measurement is necessitated by the complexity of government operation. The days of relying solely on supervisory and subjective means to insure the effectiveness of an operation have passed. Both Congress and the Secretary of the Navy have placed continued emphasis upon the development of techniques that will enable objective operation and control of government activities.

The following quotation is indicative of this trend:

4. Policy. Work measurement programs shall be improved and developed by the bureaus and offices and Headquarters, U. S. Marine Corps, to cover the work of their departmental and field activities to the widest extent practicable. Programs must be tailored to the needs of bureaus and offices and their field activities; however, the maximum practical uniformity should be achieved throughout the department in measuring similar work. Both statistical and engineering techniques incorporating work simplification will be utilized as appropriate in the development of performance standards. Statistical and engineering standards should be integrated to the maximum practical extent in work measurement reporting systems; standards should facilitate comparisons of performance to the extent practicable; and they should be used by management in the evaluation of performance and in the projection of manpower requirements.¹

These reports serve the following purposes at both the station and bureau level:

- (1) Controlling expenditures of funds and man-hours allocated to overhaul, repair and modification of ships, weapons, aircraft, and related programs.

¹SECNAV Instr. 5202.3 of 19 October 1955.

(2) Controlling performance at shop, branch and division levels.

(3) Developing standards and work norms in terms of man-hours and costs.

(4) Determine on basis of accrued costs whether to continue overhaul of old ships, weapons, and aircraft or buy new; and to compare costs of commercial overhaul vs. Navy overhaul.

(5) Used by bureau to post appropriation ledgers and lodge accrued costs.

These reports further generally provide that:

(1) Military man hours expended are shown as statistical charges.

(2) APA material charges are shown as statistical charges.

(3) Reimbursements from other appropriations are shown.

(4) Civilian labor and NSA material charges are shown as charges against the allotment.

Thus the station CO and the bureau both know just how much each major function of each department of the station is costing as well as the total cost to operate the station.

These reports also indicate work norms for each major work center of each department. Most bureaus prepare tables of comparison of these functions between stations and ask stations for explanations for wide variances from the statistical norms.

Figure 6 illustrates the flow of work measurement reports and budget estimates from the field activities to the bureau, NavComp, SecDef, and BuBud Sub-head .1920, Station Operations and Maintenance under appropriation O&M Navy is portrayed in this example. Upon receipt of these reports in the bureau, they are reconciled with the monthly reports of disbursements from the Navy Regional Accounts Offices; and

then the monthly report of Budget Status (DDform 1176) is prepared. Figure 7 illustrates this form. Note that the information is couched in terms of "obligation authority", "accrued expenditures" and "disbursements". No mention is made of the military man hours nor APA material charges reported on the work measurements reports, since final accounting for these items is otherwise accomplished. The disbursements indicated cover those purchases reported by the Navy Regional Accounts Offices as paid.

Most bureaus and offices, but not all, have a reporting system which integrates costs with information on work measurement and/or unit costs. Some systems are more comprehensive than others. The results from the reporting system of one bureau are not comparable with the results from the reporting system of another. That is, the work measurement/cost data collected by the Bureau of Supply and Accounts to measure performance has no common denominator with the data collected by the Bureau of Medicine and Surgery or Bureau of Naval Weapons. Though both the Bureau of Ships and the Bureau of Naval Weapons managed activities perform like sub-functions in many areas, the upkeep and maintenance of piers, for instance, there is no common denominator of work measurement or statistical reporting which would facilitate comparison of performance. A meaningful comparison of the cost of supply for an air station as opposed to a shipyard cannot be made because the work measurement systems are not uniform.

It must also be emphasized that a uniformity in work measurement systems would be somewhat incomplete without an integrated accounting system. That is, the basis for work measurement and financial accounting must be identical in order to accurately measure progress

Figure 6

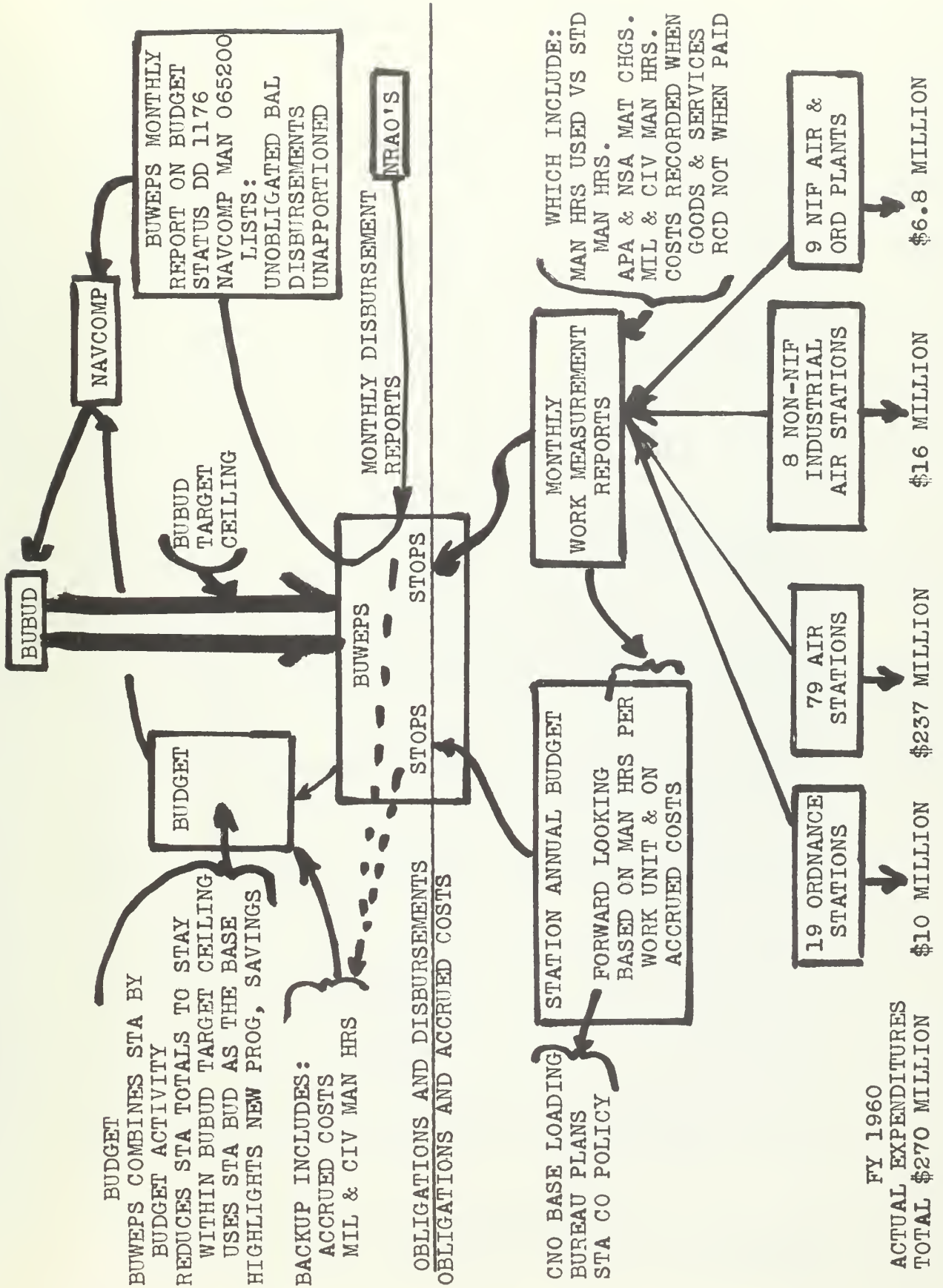


Figure 7

REPORT ON BUDGET STATUS (Obligation Basis)		FOR THE PERIOD ENDED 30 September 1958	SHEET NO. 21	NO. OF SHEETS 61
AGENCY Department of the Navy		APPROPRIATION TITLE Shipbuilding and Conversion, Navy		
BUREAU Various				
DESCRIPTION 17X1611				
AMOUNTS AVAILABLE				
1. NEW OBLIGATIONAL AUTHORITY - TOTAL	2,069,400,000			
A. APPROPRIATIONS REALIZED	2,069,400,000			
B. APPROPRIATIONS ANTICIPATED (refunds)	-			
C. OTHER NEW AUTHORIZATIONS	-			
D. NET TRANSFERS OF CURRENT YEAR AUTHORIZATIONS (+ or -)	-			
2. UNOBLIGATED BALANCE - TOTAL	994,257,720			
A. BROUGHT FORWARD 1 JULY	994,257,720			
B. NET TRANSFERS OF PRIOR YEAR BALANCES (+ or -)	-			
3. REIMBURSEMENTS (or advance) - TOTAL	17,895,164			
A. EARNED ON ADVANCES RECEIVED	2,668,267			
B. CHANGE IN UNFILLED CUSTOMER ORDERS (+ or -)	+6,233,736			
C. ANTICIPATED ORDERS OR EARNINGS FOR REST OF YEAR	8,993,161			
D. MEMO. ADJUSTMENTS TO PRIOR YEAR ORDERS (+ or -)	-213,346			
4. RECOVERIES OF PRIOR OBLIGATIONS - TOTAL	5,000,000			
A. ACTUAL	-			
B. ANTICIPATED FOR REST OF YEAR	5,000,000			
5. RESTORATIONS (+) AND RESCISSIONS OR OTHER WRITE-OFFS (-)	-			
6. TOTAL AMOUNT AVAILABLE	3,086,552,884			
STATUS OF AMOUNTS AVAILABLE				
7. OBLIGATIONS INCURRED - TOTAL	97,711,728			
A. ACCRUED EXPENDITURES (net of refunds)	-			
B. CHANGE IN CONTRACTS AND ORDERS OUTSTANDING (+ or -)	-			
C. ADJUSTMENTS AND TRANSFERS (+ or -)	-			
8. UNOBLIGATED BALANCE APPORTIONED OR OTHERWISE AVAILABLE - TOTAL	1,966,917,272			
A. COMMITMENTS OUTSTANDING	407,254,411			
B. RESERVATIONS FOR COMPLETION OF APPROVED PROCUREMENT PROGRAMS	-			
C. RESERVATIONS FOR RECEIPT OF ORDERS - APPORTIONED	-15,819			
D. OTHER BALANCES CURRENTLY AVAILABLE	1,559,678,679			
E. RESERVATIONS FOR RECEIPT OF ORDERS - AUTOMATICALLY APPORTIONED	-			
F. APPORTIONMENTS FOR SUBSEQUENT PERIODS	-			
9. UNOBLIGATED BALANCE NOT APPORTIONED NOR OTHERWISE AVAILABLE - TOTAL	1,021,923,884			
A. RESERVED FOR OBLIGATION IN SUBSEQUENT YEARS	1,021,923,884			
B. OTHER RESERVES	-			
C. BALANCE SUBJECT TO FUTURE APPORTIONMENT ACTION	-			
D. BALANCE IN EXPIRED ACCOUNTS	-			
10. TOTAL AMOUNT AVAILABLE	3,086,552,884			
RELATION OF OBLIGATIONS TO DISBURSEMENTS				
11. GROSS UNPAID OBLIGATIONS AS OF 1 JULY (net of refunds due)	2,479,277,062			
A. NET UNPAID OBLIGATIONS AS OF 1 JULY	2,474,780,051			
12. GROSS OBLIGATIONS TRANSFERRED (+ or -)	-			
A. OBLIGATED CUSTOMER ORDERS TRANSFERRED (+ or -)	-			
B. NET OBLIGATIONS TRANSFERRED (+ or -)	-			
13. GROSS UNPAID OBLIGATIONS, END OF PERIOD (net of refunds due)	2,240,771,207			
A. REIMBURSEMENTS RECEIVABLE, END OF PERIOD	1,409,892			
B. UNFILLED ORDERS ON HAND (excl. MAP common-item orders), END OF PERIOD	2,005,555			
C. NET UNPAID OBLIGATIONS, END OF PERIOD	2,237,355,760			
14. GROSS DISBURSEMENTS (net of refunds)	336,217,584			
A. REIMBURSEMENTS COLLECTED	3,764,878			
B. NET DISBURSEMENTS	332,452,706			
MEMORANDUM ITEMS				
15. A. REFUNDS RECEIVABLE, END OF PERIOD	-			
15. B. UNFILLED MAP COMMON-ITEM ORDERS ON HAND, END OF PERIOD	14,265,591			
15. C. CHANGES IN ADVANCES OUTSTANDING (+ or -)	-			
DATE 30 October 1958	TYPED NAME OF AUTHORIZED OFFICER LOT ENSEY Rear Admiral, U.S.N.		SIGNATURE OF AUTHORIZED OFFICER	

DD FORM 1 AUG 58 1176

PREVIOUS EDITIONS OF THIS FORM ARE OBSOLETE.

a/ Includes procurements pertaining to letter of Intent Contracts in amount of \$228,320,194.04

against dollars expended.

Reprogramming

Reprogramming is the shifting of funds from a previously planned and authorized use to a use which was either not previously planned (but is authorized) or one which requires funds to a degree greater than does the use from which they were originally intended.

The Bureaus are not permitted to change the distribution of funds between budget activities, except that within O&M Navy, transfers may be made for differences not to exceed 5% or \$1,000,000--whichever is less. The purpose of this restriction is to require the approval of higher authority prior to major shifts between budget activities so that there will be less possibility for criticisms by Congress that the budget is not being executed as presented and approved.

Within a budget activity, authority currently exists for Program Managers and Project Managers to shift funds from one project to another, and from one sub-project to another (provided the shift does not exceed 5% or \$1,000,000). There is no great limitation imposed other than normal prudence, experience, and a knowledge of real requirements and the intentions of the program or project. Such shifts must, of course, be justifiable and justified. Larger shifts must be referred to higher authority. At the Major Activity level (NavComp), authority is held to reprogram funds from one Major Activity to another within an appropriation, and within the cumulative limitation of \$1,000,000 or the 5% mentioned above. Reprogramming between appropriations is a matter for referral to Congress.

The House Appropriations Committee Report on the Department

of Defense Appropriation Bill for Fiscal Year 1961 contains some important remarks on reprogramming and also outlines current Department of Defense procedure in keeping the Committee informed. The Report states:

The Committee for some time has been concerned with reprogramming of funds previously appropriated on the basis of specific justifications and representations made by the Defense Department during the course of the Committee's hearings. Last year, as a further measure to improve its control over appropriated funds, the Committee directed the Department of Defense to submit an individual report on each major reprogramming action promptly after it is approved. The Committee is pleased to note the Department has instituted the necessary changes in its procedures, to keep the Appropriations Committees continuously and promptly advised on program changes which cause funds to be diverted from the purposes for which they were originally justified.

The revised procedures, which were established by Department of Defense Directive No. 7250.5, provide that a report be furnished to the Appropriations Committees as each major reprogramming action is approved by the Secretary of Defense. These reports provide a rationale for the action taken and show specifically the impact of the reprogramming on the budget activities or programs affected. In addition, the Department of Defense is furnishing the Committee, on a quarterly basis, a summary report which shows not only the major reprogramming actions but all reprogramming actions irrespective of the amount of money involved. The reports, as presently being submitted by the Defense Department, satisfy the Committee's requirements at the present time.

Strict adherence by the Department of Defense to the procedures already in force and to the past direction of the Committee may avoid the need for expansion of limitations and other restrictions in appropriation language, or perhaps an eventual return to the "line item" approach to Congressional action on Defense programs. The Congress is intensely interested in protecting the best interests of all the public in this regard. The desire is to obtain the most for the money and avoid waste and extravagance. Therefore, the Congress cannot, must not, and has no intention of yielding complete control over the use of public funds to the Executive Branch of the Government at any level.¹

It is doubtful that Congress will ever relinquish control of funds to the extent that the reprogramming action can be taken without thought being given to Congressional reaction, and to justification prepared to temper that reaction. Congressional appropriations reflect countless

¹The Budget Process in the Navy, 1960, p. 6-12.

hours of thoughtful effort, compromises, decisions, justifications, arguments, rebuttals, blood, sweat and tears.

Reapportionment

As indicated earlier in this paper, the apportionment process is the control device by which the Bureau of the Budget regulates the rate and magnitude of the spending action by the Department of the Navy and other military departments.

An apportionment, once made, is not so firm that it cannot be changed. Within the Navy Department, the Bureaus or the Commandant of the Marine Corps, reapportionment appropriate to their requirements may be requested so long as the request does not involve an increase in the appropriation. Such a reapportionment request must be submitted to the Bureau of the Budget via SecNav (NavComp) and SecDef.

Changes may also be initiated from the Presidential level by the Bureau of the Budget. The President usually will discuss such proposed reductions with the Secretary of Defense and the Secretary of the Navy before implementing them. It is these discussions which, of course, provide basic guidance--the programs or budget activities involved to be reduced.

CHAPTER IV

SUMMARY AND CONCLUSIONS

The description of performance budgeting in the Department of the Navy presented herein may be thought of as an "original deduction." That is, it is based on the substantial body of literature extant on the subject of performance budgeting; however, it is more specific and inclusive than any known previous definition. Briefly described, a performance budgeting system involves:

(1) The translation of objectives developed in the planning process into a sub-series of finite, measurable terms.

(2) The presentation of these finite, measurable terms in the form of Program Elements which represent the major means of carrying out the Navy mission--e.g., ASW--and in the form of Performance Elements which are the means of fulfilling the Programs.

(3) The supplying of guidance to executing field commands in terms of these same Performance Elements, with the opportunity for field commands to participate fully in the adjustment of these plans as may be required, and with further provision for flexibility in budget execution.

(4) The existence of a reporting system (accounting and statistical) which furnishes information in terms of the same Performance Elements on a work measurement and/or unit cost basis (unless the area can be adequately measured by dollars alone), for control, future planning, and budgeting at both field and departmental levels.

Chapter I suggests a framework for the budget process and further opines that this framework could serve as the basis for a "planning discipline" which would insure the most effective utilization of the Navy Department's funds without requiring reorganization at the departmental level or modification of the appropriation structure.

In discussing Budget Formulation in Chapter II, it is stated that integral to this process are:

- (1) The setting of objectives.
- (2) The "pricing" of these objectives.
- (3) The evaluation of the priced objectives.

A review of departmental procedures reveals that while these steps are gone through, the process does not, generally, coincide with those considered ideal in a performance budgeting concept. Not only is guidance from above the CNO level very limited (often restricted, in essence, to the fact that force levels and total dollars are expected to remain the same),¹ but CNO guidance does not generally indicate to the departmental level formulators the relative priority of the objectives cited. This makes it difficult for the latter to determine intelligently what performance goals should be, so that they might be quantified.

The other major deficiency in present formulation practice is the prevalence of the "base budgeting" concept, which involves additions or deletions of budgetary line items to the "base", which is generally the preceding year's codified obligations. As was demonstrated in the

¹U. S. Department of the Navy, Office of the Secretary of the Navy, Notice 7110, December 14, 1959.

example of this process, in one case where base budgeting was used, only 13% of the dollar total requested was subject to examination, the presumption being that the remaining 87% were justified merely because they were obligated the preceding year.¹

It is recognized that the possible inspiration for this approach is the fact that congressional submissions assume this format, that it is "easy to understand," and reduces questioning. However, for the reasons given throughout this paper, it is held that this process does not readily accommodate the recognition of finalized program objectives. Furthermore, this does not require thorough, systematized review of all prior performance nor does it provide the basis for a reporting system which will permit control through the furnishing of data to compare with a plan.

To the extent that "zero" budgeting exists in the formulation process--that is, the build up of total requirements from the pricing of a projection and evaluation of detailed anticipated workloads--the Department of the Navy is advanced toward the potentiality for true performance budgeting as we have defined it.

The degree to which the proposed form of performance budgeting can be practiced in the execution process is dependent, to a considerable extent, on the degree to which it permeates formulation. Unless formulation is carried out in this manner, there is no logical progression to goals which are to be executed, nor is there an organized basis for a reporting system to reflect progress against plans. It is believed that the best interests of the Department of the Navy are not served by

¹Supra, p. 39.

obtaining funds in one manner and attempting to execute in another.

As suggested in Chapter III, in the execution process it would be necessary to modify the apportionment and allocation process to provide that these items be keyed to programs so that progress other than financial could also be reported against predetermined goals.

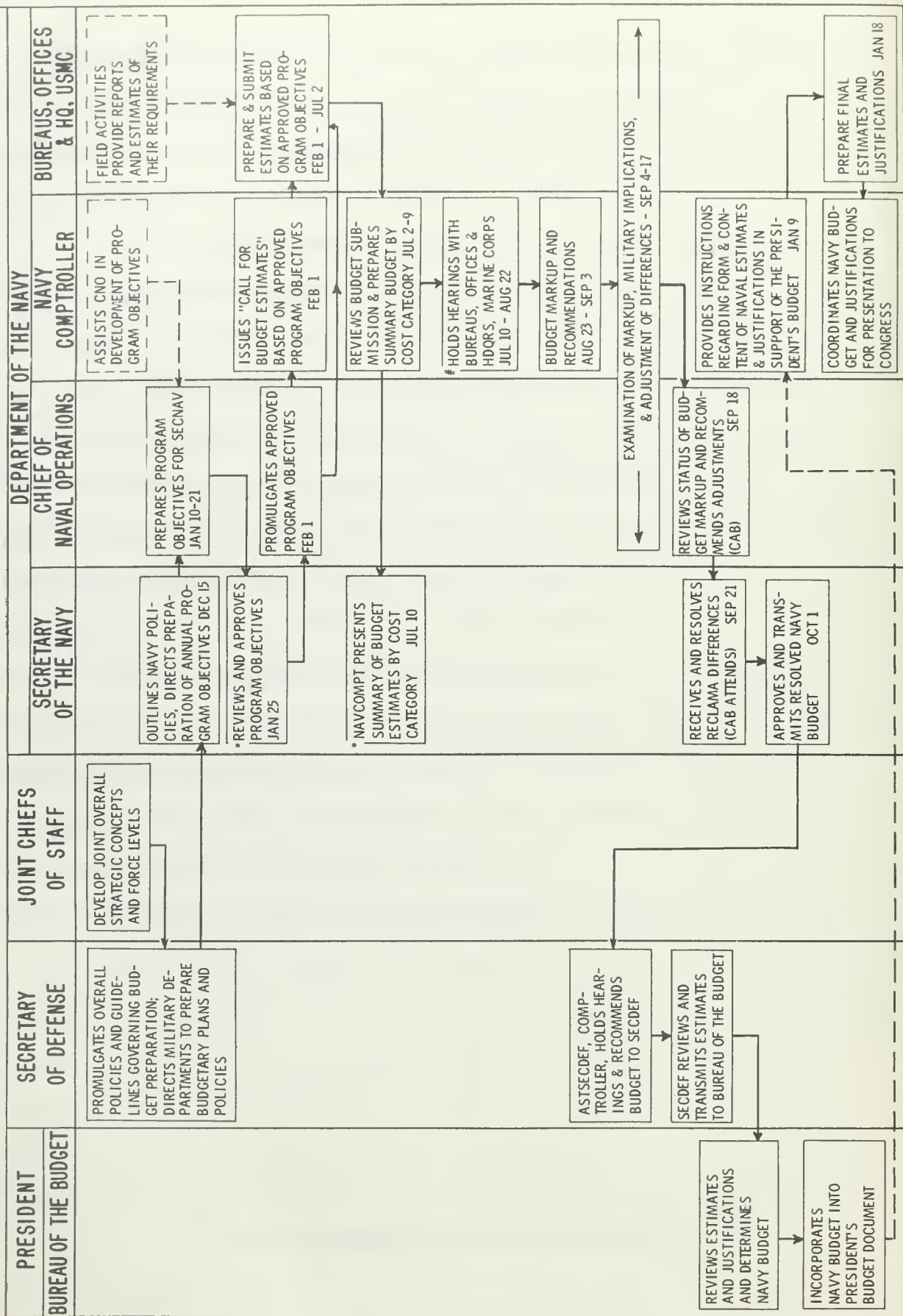
Furthermore, consonance with performance budgeting would involve the elimination of base type budgeting in the execution process for the same reasons it is considered inadequate for formulations. Thus, field commanders and other executors would be in possession, at the onset of the execution process, more adequate guidance and the capacity to quite easily determine whether they were obtaining objectives, and if not, why.

It is fully understood that the efforts involved in such a large scale change are massive. However, as Simon writes in his premise, the ablest administrators recognize the shortcomings of the type of system which presently obtains, and no criticism is implied in the case of the "administrator who must act whether or not he possesses the information that would be necessary for the complete rationality of his decisions. It is a criticism of apologies that would make his ignorance a virtue, and would question the need for extensive programs of research in this direction."¹

¹H. A. Simon, Administrative Behavior, p. 190.

FLOW CHART FOR DEVELOPMENT OF THE NAVY BUDGET

REF: SECNAVINST 7110.3 WITH CH 1



NOTES: CAB - indicates "CNO ADVISORY BOARD" (OPNAV INST 5420.28)
 *UNDER SECNAV, ASTSECNAV, CNO & CMC ATTEND.
 #ATTENDED BY APPROPRIATION AND PROGRAM SPONSORS FROM CNO AND CMC.
 ALL DATES ARE APPROXIMATE.

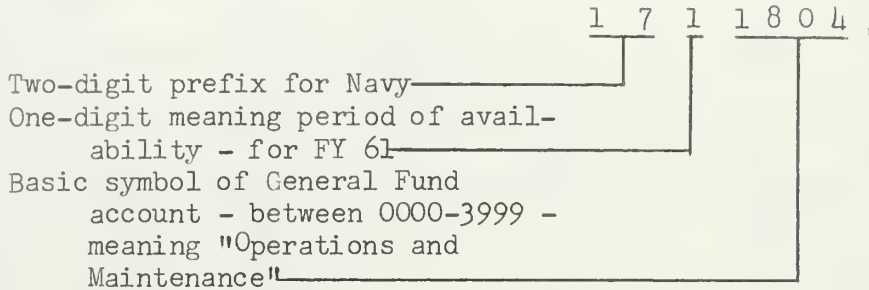
APPENDIX II

APPROPRIATION AND ACCOUNTING SYMBOLIZATION

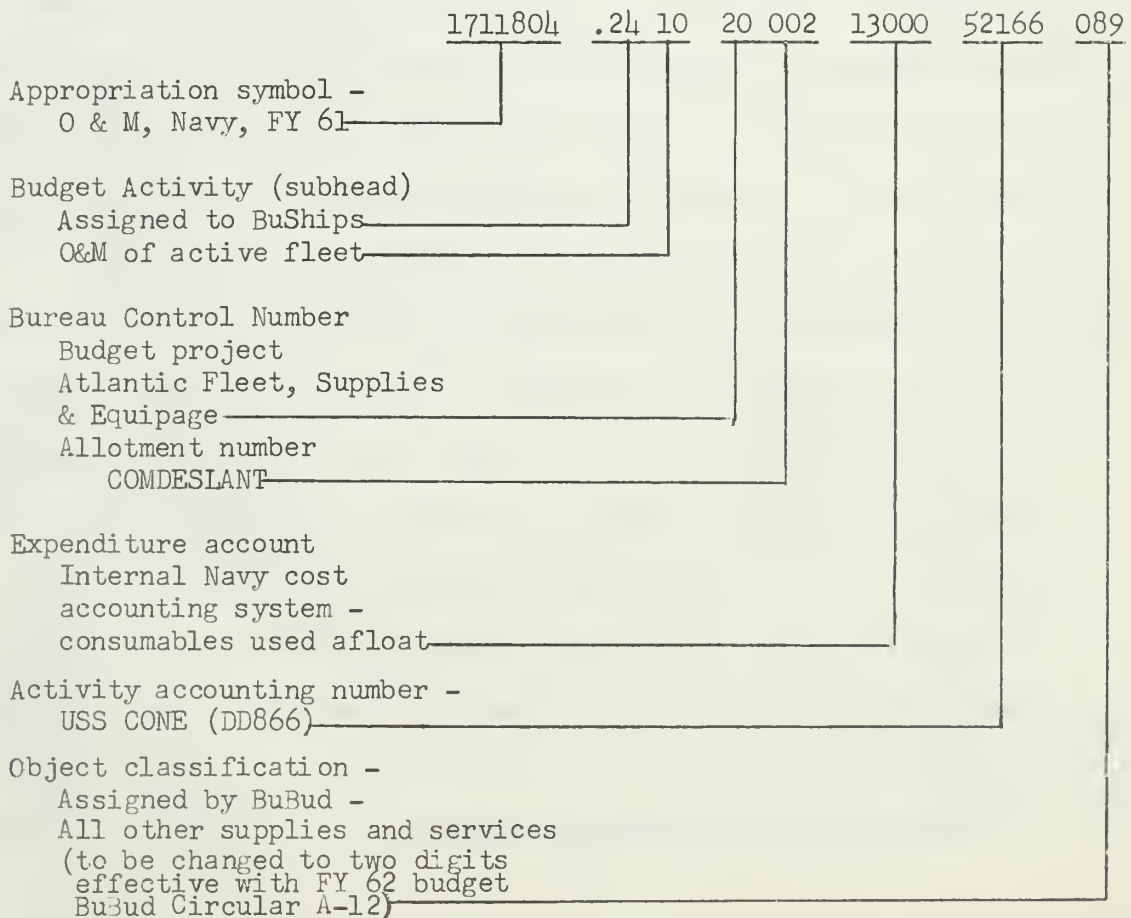
The basic guidelines, definitions, and assignment of responsibilities for the establishment and symbolization of accounts are laid down in the "General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, Title 7 (Standardized Fiscal Procedures)." This manual delegates to the Treasury Department the responsibility of assigning "receipt, expenditure and basic working fund account symbols consistent with the principles established (herein)" and requires that the Treasury Department issue appropriate announcements of all symbols and titles they assign.¹ The Manual then sets down certain blocks of numbers that are to be used by the Treasury Department in identifying the accounts for various types of receipt and expenditure transactions (e.g., General Fund Accounts for expenditure symbols are to be between 0000 and 3999). These basic symbols are to be prefixed by (1) a two-digit index number assigned by the Treasury Department to identify the department or agency to which funds are available and (2) one- or two-digit symbols established by the General Accounting Office to identify the period for which the accounts are available for obligation. Examples of the former symbols assigned are: 17 - Navy Department; 20 - Coast Guard; 21 - Army; 57 - Air Force; and 97 - Office of the Secretary of Defense. Examples of symbols identifying the period of availability are (1) a single digit (0 to 9) to identify the fiscal year of the availability of one-year appropriations (e.g., 1 for FY 1961); (2) "X" identifies a no-year appropriation; (3) "M" is a successor account. The primary classifications which are used throughout all agencies of the Government to identify transactions that

¹GAO Policies and Procedures Manual, Title 7, Section 1030.10.

relate to the collection and/or expenditure of funds are made up from these rules. The Navy appropriations, with symbolization, for Fiscal Year 1961 are shown in Figure 2. A breakdown of the O&M Navy appropriation is as follows:



This basic appropriation symbol is not adequate for proper distribution and positive control of funds, so additional symbols are used by the Navy Department, some required by outside authority and others for internal control purposes. A complete set of symbols that must be used on all forms, papers, and correspondence, when applicable, is shown below.



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